

TEXAS INSTRUMENTS INC
Form DEF 14A
March 09, 2007

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

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

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Texas Instruments Incorporated

(Name of Registrant as Specified In Its Charter)

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
APRIL 19, 2007**

Dear Stockholder:

You are cordially invited to attend the **2007 annual meeting of stockholders on Thursday, April 19, 2007**, at the cafeteria on our property at 12500 TI Boulevard, Dallas, Texas, at 10:00 a.m. (Dallas time). At the meeting we will:

- Elect directors for the next year.
- Consider and act upon a board proposal to ratify the appointment of Ernst & Young LLP as the company's independent registered public accounting firm for 2007.
- Consider and act upon such other matters as may properly come before the meeting.

Stockholders of record at the close of business on February 20, 2007, are entitled to vote at the annual meeting.

We urge you to vote your shares as promptly as possible by: (1) accessing the Internet web site, (2) calling the toll-free number or (3) signing, dating and mailing the enclosed proxy.

Sincerely,
Joseph F. Hubach
*Senior Vice President,
Secretary and
General Counsel*

Dallas, Texas
March 9, 2007

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MAILING ADDRESS: POST OFFICE BOX 660199, DALLAS, TEXAS 75266-0199

PROXY STATEMENT

March 9, 2007

VOTING PROCEDURES

TI's board of directors requests your proxy for the annual meeting of stockholders on April 19, 2007. If you sign and return the enclosed proxy, or vote by telephone or on the Internet, you authorize the persons named in the proxy to represent you and vote your shares for the purposes mentioned in the notice of annual meeting. This proxy statement and related proxy are being distributed on or about March 9, 2007.

If you come to the meeting, you can of course vote in person. But if you don't come to the meeting, your shares can be voted only if you have returned a properly signed proxy or followed the telephone or Internet voting instructions. If you sign and return your proxy but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the board of directors. You can revoke your authorization at any time before the shares are voted at the meeting.

ELECTION OF DIRECTORS

Directors are elected at the annual meeting to hold office until the next annual meeting and until their successors are elected and qualified. The board of directors has designated the following persons as nominees: JAMES R.

ADAMS, DAVID L. BOREN, DANIEL A. CARP, CARRIE S. COX, THOMAS J. ENGIBOUS, DAVID R. GOODE, PAMELA H. PATSLEY, WAYNE R. SANDERS, RUTH J. SIMMONS, RICHARD K. TEMPLETON and CHRISTINE TODD WHITMAN. Gerald W. Fronterhouse, a highly valued director since 1986, has attained the age of 70 since his last election and is, therefore, ineligible under the company's by-laws to stand for reelection in 2007. Mr. Fronterhouse is currently a member of the Audit Committee. If you return a proxy that is not otherwise marked, your shares will be voted FOR each of the nominees.

Nominees for Directorship

All of the nominees for directorship are now directors of the company. If any nominee becomes unable to serve before the meeting, the people named as proxies may vote for a substitute or the number of directors will be reduced accordingly.

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JAMES R. ADAMS Director

Member, Governance and Stockholder Relations Committee.

Chairman of the board of the company, 1996-98. Group president, SBC Communications Inc., 1992-95; president and chief executive officer of Southwestern Bell Telephone Company, 1988-92.

DAVID L. BOREN Director

Chair, Governance and Stockholder Relations Committee.

President of the University of Oklahoma since 1994. U.S. Senator, 1979-94; Governor of Oklahoma, 1975-79. Director, AMR Corporation and Torchmark Corporation; chairman, Oklahoma Foundation for Excellence.

DANIEL A. CARP Director

Chair, Compensation Committee.

Chairman of the board and chief executive officer of Eastman Kodak Company, 2000-2005; director, 1997-2005. President of Eastman Kodak, 1997-2001, 2002-2003; chief operating officer, 2002-2003. Director, Liz Claiborne, Inc. and Norfolk Southern Corporation.

CARRIE S. COX Director

Member, Audit Committee.

Executive vice president and president of Global Pharmaceuticals at Schering-Plough Corporation since 2003. Executive vice president and president of Global Prescription Business at Pharmacia Corporation, 1997-2003.

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THOMAS J. ENGIBOUS Chairman

Chairman of the board since 1998. President and chief executive officer of the company, 1996-2004. Joined the company in 1976; elected executive vice president in 1993. Chairman, Catalyst; director, J.C. Penney Company, Inc.; member, The Business Council; trustee, Southern Methodist University.

DAVID R. GOODE *Director*

Member, Governance and Stockholder Relations Committee.

Chairman of the board of Norfolk Southern Corporation, 1992-2006; chief executive officer, 1992-2005; president, 1991-2004. Director, Caterpillar, Inc., Delta Air Lines, Inc. and Russell Reynolds Associates, Inc.; member, The Business Council.

PAMELA H. PATSLEY *Director*

Chair, Audit Committee.

Senior executive vice president of First Data Corporation since 2000; president of its subsidiaries First Data International since 2002 and First Data Merchant Services, 2000-2002. President and chief executive officer of Paymentech, Inc., 1991-2000. Director, Molson Coors Brewing Company and Tolleson Wealth Management, Inc.; national trustee, Boys and Girls Clubs of America.

WAYNE R. SANDERS *Director*

Member, Audit Committee.

Chairman of the board of Kimberly-Clark Corporation, 1992-2003; chief executive officer, 1991-2002; director, 1989-2003. Director, Belo Corporation; national trustee and governor, Boys and Girls Clubs of America; trustee, Marquette University.

RUTH J. SIMMONS *Director*

Member, Compensation Committee.

President of Brown University since 2001. President of Smith College, 1995-2001; vice provost of Princeton University, 1992-95. Director, Pfizer, Inc. and The Goldman Sachs Group, Inc.; fellow, American Academy of Arts and Sciences; member, Council on Foreign Relations.

RICHARD K. TEMPLETON *Director, President and Chief Executive Officer*

President and chief executive officer of the company since 2004. Chief operating officer of the company, 2000-2004. Joined the company in 1980; elected president of the company's Semiconductor Group and executive vice president in 1996. Chairman of the board, Semiconductor Industry Association; member, The Business Roundtable.

CHRISTINE TODD WHITMAN *Director*

Member, Compensation Committee.

Director and president of The Whitman Strategy Group. Administrator of the Environmental Protection Agency, 2001-2003; Governor of New Jersey, 1994-2000. Director, Council on Foreign Relations, S.C. Johnson & Son, Inc. and United Technologies Corp.

The board is responsible for approving nominees for election as directors. To assist in this task, the board has designated a standing committee, the Governance and Stockholder Relations Committee (the Committee), which is responsible for reviewing and recommending nominees to the board. The Committee is comprised solely of independent directors as defined by the rules of the New York Stock Exchange (NYSE) and the board's corporate governance guidelines. Our board of directors has adopted a written charter (Statement of Responsibilities) for the Committee. The charter can be found on our web site at www.ti.com/corporategovernance.

It is a long-standing policy of the board to consider director nominees recommended by stockholders. A stockholder who wishes to recommend a prospective board nominee for the Committee's consideration can write to the Secretary of the Governance and Stockholder Relations Committee, Texas Instruments Incorporated, Post Office Box 655936, MS 8658, Dallas, Texas 75265-5936. The Committee will evaluate the stockholder's prospective board nominee in the same manner as it evaluates other nominees.

In evaluating prospective nominees, the Committee looks for the following minimum qualifications, qualities and skills:

- Outstanding achievement in the individual's personal career.
- Breadth of experience.
- Soundness of judgment.
- Ability to make independent, analytical inquiries.
- Ability to contribute to a diversity of viewpoints among board members.
- Willingness and ability to devote the time required to perform board activities adequately (in this regard, the Committee will consider the number of other boards on which the individual serves as a director).
- Ability to represent the total corporate interests of TI (a director will not be selected to, nor will he or she be expected to, represent the interests of any particular group).

Stockholders, non-management directors, management and others may submit recommendations to the Committee. The board prefers a mix of experience among its members to maintain a diversity of viewpoints. For example, some board members may have spent much of their careers in business, some in government and some in academia. The board's current size is within the desired range as stated in the board's corporate governance guidelines.

Communications with the Board

Stockholders and others who wish to communicate with the board as a whole, or to individual directors, may write to them at: Post Office Box 655936, MS 8658, Dallas, Texas 75265-5936. All communications sent to this address will be shared with the board or the individual director, if so addressed.

Annual Meeting Attendance

It is a policy of the board to encourage directors to attend each annual meeting of stockholders. Such attendance allows for direct interaction between stockholders and members of the board. In 2006, all directors attended TI's annual meeting of stockholders.

Director Independence

The board has adopted the following standards for determining independence.

- A. In no event will a director be considered independent if:

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1. He or she is a current partner of or is employed by the company's independent auditors; or
2. An immediate family member of the director is (a) a current partner of the company's independent auditors or (b) currently employed by the company's independent auditors and participates in the auditors' audit, assurance or tax compliance (but not tax planning) practice.

B. In no event will a director be considered independent if, within the preceding three years:

1. He or she was employed by the company (except in the capacity of interim chairman of the board, chief executive officer or other executive officer) or any of its subsidiaries;
2. He or she received more than \$100,000 during any twelve-month period in direct compensation from TI (other than (a) director and committee fees and pension or other forms of deferred compensation and (b) compensation received for former service as an interim chairman of the board, chief executive officer or other executive officer);
3. An immediate family member of the director was employed as an executive officer by the company or any of its subsidiaries;
4. An immediate family member of the director received more than \$100,000 during any twelve-month period in direct compensation from TI (excluding compensation as a non-executive officer employee of the company);
5. He or she was (but is no longer) a partner or employee of the company's independent auditors and personally worked on the company's audit within that time;
6. An immediate family member of the director was (but is no longer) a partner or employee of the company's independent auditors and personally worked on the company's audit within that time;
7. He or she was an executive officer of another company, at which any of TI's current executive officers at the same time served on that company's compensation committee;
8. An immediate family member of the director was an executive officer of another company at which any of TI's current executive officers at the same time served on that company's compensation committee;
9. He or she was, and remains at the time of the determination, an executive officer or employee of a company that made payments to, or received payments from, TI for property or services in an amount which, in any single fiscal year, exceeded the greater of \$1 million or 2 percent of the other company's consolidated gross revenues for its last completed fiscal year (for purposes of this standard, charitable contributions are not

considered [payments]); or

10. An immediate family member of the director was, and remains at the time of the determination, an executive officer of a company that made payments to, or received payments from, TI for property or services in an amount which, in any single fiscal year, exceeded the greater of \$1 million or 2 percent of the other company's consolidated gross revenues for its last completed fiscal year (for purposes of this standard, charitable contributions are not considered [payments]).

- C. Audit Committee members may not accept any consulting, advisory or other compensatory fee from TI, other than in their capacity as members of the board or any board committee. Compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with TI (provided that such compensation is not contingent in any way on continued service).

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- D. The following relationships will not be considered material relationships with the company for the purpose of determining director independence:

1. A director is an employee, director or trustee of a charitable organization and TI or the TI Foundation makes discretionary contributions to that organization that are less than the greater of \$50,000 or 2 percent of the organization's latest publicly available consolidated gross revenue.
2. A director is an employee, director or trustee of another entity that is indebted to TI or to which TI is indebted, and the total amount of either company's indebtedness to the other is less than 2 percent of the total consolidated assets of the entity he or she serves as an executive officer, director or trustee.

For any other relationship, the determination of whether the relationship is material, and consequently whether the director involved is independent, will be made by directors who satisfy the independence criteria set forth in this section.

For purposes of these independence determinations, [immediate family member] will have the same meaning as under the NYSE rules.

Applying these standards, the board has determined that the following directors have no material relationship with the company other than as a director and are, therefore, independent: Mr. Adams, Mr. Boren, Mr. Carp, Ms. Cox, Mr. Fronterhouse, Mr. Goode, Ms. Patsley, Mr. Sanders, Ms. Simmons and Ms. Whitman. In its deliberations, the board considered Mr. Adams's employment by the company in the role of independent chairman of the board from 1996 to 1998, and noted that the board's independence standards specifically permit employment of an independent director as interim chairman with no effect on that director's status (see B.1. above). The board also considered a charitable contribution the company made to an organization for which Ms. Patsley and Mr. Sanders serve as national trustees. The amount of the contribution was well within the [safe harbor] for charitable contributions contained in the independence standards (see D.1. above).

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Directors' Ages, Service and Stock Ownership

The table below shows the directors' ages and beneficial ownership of common stock of the company and the year each became a director.

Director	Age	Director Since	Common Stock Ownership at December 31, 2006*
J. R. Adams	67	1989	802,967
D. L. Boren	65	1995	88,312
D. A. Carp	58	1997	113,511
C. S. Cox	49	2004	14,115
T. J. Engibous	54	1996	5,440,595
G. W. Fronterhouse	70	1986	126,589
D. R. Goode	66	1996	112,482
P. H. Patsley	50	2004	18,291
W. R. Sanders	59	1997	99,004
R. J. Simmons	61	1999	84,028
R. K. Templeton	48	2003	4,504,563
C. T. Whitman	60	2003	25,411

* Included in the common stock ownership shown above are:

Director	Shares Obtainable Within 60 Days	Shares Credited to 401(k) and Profit Sharing Accounts	Restricted Stock Units (in Shares) (1)	Shares Credited to Deferred Compensation Account (2)
J. R. Adams	322,500	3,453	18,512	21,603
D. L. Boren	62,500	0	22,880	2,932
D. A. Carp	82,500	0	8,664	22,347
C. S. Cox	11,250	0	2,000	0
T. J. Engibous	5,319,696	18,133	0	0
G. W. Fronterhouse	82,500	0	22,880	0
D. R. Goode	82,500	0	13,632	16,350
P. H. Patsley	11,250	0	2,000	5,041
W. R. Sanders	82,500	0	9,600	1,304
R. J. Simmons	62,500	0	8,000	13,528
R. K. Templeton	4,022,696	11,096	470,000	0
C. T. Whitman	22,500	0	2,000	911

(1) The non-employee directors' restricted stock units are settled in TI stock generally upon the director's termination of service provided he or she has served at least eight years or has reached the company's retirement age for directors.

(2) The shares in deferred compensation accounts are issued following the director's termination of service.

Excludes shares held by a family member if a director has disclaimed beneficial ownership. Each director owns less than 1 percent of TI's common stock. No director has pledged shares of TI common stock.

CORPORATE GOVERNANCE

The board has a long-standing commitment to responsible and effective corporate governance. A full description of our board's corporate governance practices is available at www.ti.com/corporategovernance.

TI's board of directors first adopted written governance guidelines and committee charters in 1973. Its policies and practices have evolved over time, adapting to meet the needs of TI and our stockholders, although some practices, such as maintaining a majority of independent directors, are of long standing. Our board's commitment to

governance is evidenced by the time members devote to TI matters. Historically the board has met at least eight times a year. TI directors have also long participated in strategic planning conferences in addition to the regular board meetings. Directors interact directly with managers other than the chief executive officer at board meetings and the strategic planning conferences. This practice facilitates the directors' oversight efforts and also gives directors opportunities to evaluate those managers, aiding directors in succession planning considerations. The board and each of its committees conduct evaluations annually; changes to processes such as agenda setting, and expanded presentations to the board on certain topics, are examples of improvements that have resulted from those evaluations.

The Governance and Stockholder Relations Committee typically considers and makes recommendations to our board on governance matters. Membership of the Committee is determined by our board and the Committee consists entirely of independent directors. On page 12 of this proxy statement is a summary of the committee's responsibilities.

Our board regularly undertakes an assessment of its governance practices. It did so as recently as 2006. Following are examples of significant governance practices at TI:

- Majority voting. Under TI's by-laws, a director nominee must receive an affirmative vote from a majority of the shares present at the company's annual meeting of stockholders in order to be elected. The board believes this majority vote standard appropriately gives stockholders a greater voice in the election of directors than does plurality voting. Under Delaware law, an incumbent director who fails to receive the required vote "holds over," or continues to serve as a director, until his or her successor is elected and qualified. In order to address this "holdover" issue, board policy requires an incumbent nominee who fails to receive the required vote to tender a resignation. Following receipt of such a resignation, the board is required to act on it within 90 days of the certification of the vote. In considering whether to accept or reject the resignation, the board will consider all factors it deems relevant, including the underlying reason for the vote result, the director's contributions to the company during his or her tenure, and the director's qualifications. The board may accept or reject the resignation. Only independent directors will participate in the deliberations regarding a tendered resignation.
- The roles of chairman and chief executive officer. Our board believes that the company's situation warrants separating the roles of chairman and chief executive officer. However, the board does not believe it is in the best interests of stockholders to be permanently bound to that structure. Instead, the board will determine the leadership structure that serves the company best at any given time. That structure may involve a separation of the roles of chief executive officer and chairman, or may involve the chief executive officer simultaneously serving as chairman, depending on current and anticipated circumstances.
- Retirement age and term limits. Our board maintains a retirement age of 70 for directors. The board has considered whether to institute term limits but concluded that term limits can result in the loss of directors who have developed, over a period of time, an in-depth understanding of the company and its strategic objectives, operations and challenges and, therefore, provide a valuable contribution to the board as a whole.
- Executive sessions and "lead director." Non-management directors of the board meet in executive sessions at each regularly scheduled meeting and at such other times as the Committee recommends. Any management director, such as the chief executive officer, is excluded from these executive sessions. The chair of the appropriate board committee acts as chair at executive sessions at which the principal item to be considered is within the scope of authority of his or her committee or, if there is no single principal item, the chair of the Governance and Stockholder Relations Committee. This practice, by providing opportunities for leadership to more than one independent director, more fully engages the board members. Our board prefers this approach to the selection of one "lead director."

- Director independence. Our board has historically been comprised almost entirely of independent directors. In accordance with the NYSE listing standards, the Committee has developed specified standards for determining independence. Those standards are listed beginning on page 6.

Governance Documents

The board's corporate governance guidelines, the charters (Statements of Responsibilities) of the board's committees, TI's code of business conduct and our code of ethics for its chief executive officer and senior financial officers are available on our web site at www.ti.com/corporategovernance. Stockholders may request copies of these documents free of charge by writing to Texas Instruments Incorporated, P.O. Box 660199, MS 8657, Dallas, Texas, 75266-0199, Attn: Investor Relations.

BOARD ORGANIZATION

Board and Committee Meetings

During 2006, the board held 10 meetings. The board has three standing committees described below. The committees of the board collectively held 22 meetings in 2006. Overall attendance at board and committee meetings was approximately 99 percent.

Committees of the Board

Audit Committee. The Audit Committee is a separately designated standing committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. All members of the Audit Committee are independent under the rules of the NYSE and the board's corporate governance guidelines. From January 1 to April 20, 2006, the members of the committee were: Mr. Adams (Chair), Ms. Cox, Mr. Fronterhouse and Ms. Patsley. Since April 20, 2006, the Committee members have been Ms. Patsley (Chair), Ms. Cox, Mr. Fronterhouse and Mr. Sanders. The Audit Committee is generally responsible for:

- Appointing, compensating, retaining and overseeing TI's independent registered public accounting firm.
- Reviewing the annual report of TI's independent registered public accounting firm related to quality control.
- Reviewing TI's annual reports to the SEC, including the financial statements and the "Management's Discussion and Analysis" portion of those reports, and recommending appropriate action to the board.
- Reviewing TI's audit plans.
- Reviewing before issuance TI's news releases regarding annual and interim financial results and discussing with management any related earnings guidance that may be provided to analysts and rating agencies.
- Discussing TI's audited financial statements with management and the independent registered public accounting firm, including a discussion with the firm regarding the matters required to be discussed by Statement of Auditing Standards No. 61.
- Reviewing relationships between the independent registered public accounting firm and TI in accordance with Independence Standards Board Standard No. 1.
- Reviewing and discussing the adequacy of TI's internal accounting controls and other factors affecting the integrity of TI's financial reports with management and with the independent registered public accounting firm.
- Creating and periodically reviewing TI's whistleblower policy.
- Reviewing TI's risk assessment and risk management policies.

The board has determined that all members of the Audit Committee are financially literate and have financial management expertise, as the board has interpreted such qualifications in its business judgment. In addition, the board has designated Ms. Patsley as the audit committee financial expert as defined in the Securities Exchange Act of 1934, as amended.

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The Audit Committee met 6 times in 2006. The Audit Committee holds regularly scheduled meetings and reports its activities to the board. The dates on which meetings will occur are generally set three years in advance to coincide with board meetings. The committee also continued its long-standing practice of meeting directly with our internal audit staff to discuss the audit plan and to allow for direct interaction between Audit Committee members and our internal auditors. See page 49 for a report of the committee.

Compensation Committee. The Compensation Committee consists of three independent directors. From January 1 to April 20, 2006, the members of the committee were Mr. Sanders (Chair), Mr. Carp and Ms. Simmons. Since April 20, 2006, the committee members have been Mr. Carp (Chair), Ms. Simmons and Ms. Whitman. The committee is responsible for:

- Reviewing and approving company goals and objectives relevant to CEO compensation.
- Evaluating the CEO's performance in light of those goals and objectives.
- Setting the compensation of the CEO and other executive officers.
- Making recommendations to the board regarding:
 - Institution and termination of, revisions in and actions under employee benefit plans that (i) increase benefits only for officers of the company or disproportionately increase benefits for officers of the company more than other employees of the company, (ii) require or permit the issuance of the company's stock or (iii) the board must approve.
- Reservation of company stock for use as awards of grants under plans or as contributions or sales to any trustee of any employee benefit plan.
- Purchase of company stock in connection with employee benefit plans.
- Taking action as appropriate regarding the institution and termination of, revisions in and actions under employee benefit plans that are not required to be approved by the board; administration of employee benefit plans; and the approval and execution of employee benefit plan documents, contracts with employee benefit plan providers and other third parties.

The Compensation Committee holds regularly scheduled meetings and reports its activities to the board. The dates on which meetings will occur are generally set three years in advance to coincide with board meetings. During 2006, the committee met 8 times. See page 28 for a report of the committee.

In performing its functions, the committee is supported by the company's Human Resources organization. The committee has authority to retain independent experts and advisors. During 2006, the committee retained the services of an independent compensation consultant. The consultant, Pearl Meyer & Partners, was engaged directly by the committee. The committee instructed the consultant to advise it directly on executive compensation philosophy, strategies, pay levels and decision-making processes. Additionally, the committee instructed the consultant to assist our Human Resources organization in its support of the committee on such items as identifying peer-group companies, analyzing the market level of compensation and developing compensation recommendations relating to the CEO and other executive officers. The committee required that any further engagement or use of the consultant be approved in advance by the committee chair. During 2006, the consultant provided no services to management.

The Compensation Committee considers executive compensation in a multistep process that involves the review of market information, performance data and possible compensation levels over several meetings leading to the annual determinations in January. Before setting executive compensation, the committee reviews the total compensation and benefits of the executive officers and considers the impact that their retirement, or termination under various other scenarios, would have on their compensation and benefits.

The CEO and the senior vice president responsible for Human Resources, who is an executive officer, are regularly invited to attend meetings of the committee but are excused from the meeting during any discussion of their own compensation. No executive officer determines his or her own compensation or the compensation of any other executive officer. As members of the board, the members of the committee receive information concerning the performance of the company during the year and interact with our management. During

the committee's deliberations on executive compensation, the CEO gives the committee and the board an assessment of his own performance during the year just ended. He also reviews the performance of the other executive officers (except the chairman) with the committee and makes recommendations regarding their compensation. The senior vice president responsible for Human Resources assists in the preparation of and reviews the compensation recommendations made to the committee other than for her compensation.

The Compensation Committee's charter provides that it may delegate its power, authority and rights with respect to TI's long-term incentive plans, Executive Officer Performance Plan, employee stock purchase plan and employee benefit plans as the committee deems appropriate to (i) one or more committees of the board established or delegated authority for that purpose; or (ii) employees or committees of employees except that no such delegation may be made with respect to compensation of the company's executive officers.

Pursuant to that authority, the Compensation Committee has delegated to a special committee established by the board the authority to grant stock options and restricted stock units under the company's long-term incentive plans, subject to limits established by the committee. The sole member of the special committee is Mr. Templeton. With respect to each of TI's two long-term incentive plans, the special committee is authorized to grant, amend or terminate (i) up to 500,000 restricted stock units per year and (ii) stock options and restricted stock units for an aggregate amount up to 2 million shares per year. The special committee has no authority to grant, amend or terminate any form of compensation to TI's executive officers. The special committee has typically used its delegated authority to make grants of stock options as needed between regularly scheduled meetings of the Compensation Committee to newly hired employees, for retention of existing employees and to meet the requirements under certain foreign laws that the grants be made only during certain periods as a condition to qualifying for favorable tax treatment. The Compensation Committee regularly reviews the grant activity of the special committee.

Governance and Stockholder Relations Committee. All members of the Governance and Stockholder Relations Committee are independent. From January 1 to April 20, 2006, the members of the committee were Mr. Boren (Chair), Mr. Goode and Ms. Whitman. Since April 20, 2006, the committee members have been Mr. Boren (Chair), Mr. Adams and Mr. Goode. The Governance and Stockholder Relations Committee is generally responsible for:

- Making recommendations to the board regarding:
- The development and revision of our corporate governance principles.
- The size, composition and functioning of the board and board committees.
- Candidates to fill board positions.
- Nominees to be designated for election as directors.
- Compensation of board members.

- Organization and responsibilities of board committees.
- Succession planning by the company.
- Issues of potential conflicts of interest involving a board member raised under TI's conflict of interest policy.
- Topics affecting the relationship between management and stockholders, and public issues.
- Responses to proposals submitted by stockholders.
- Reviewing:
 - Contribution policies of the company and of the TI Foundation.
 - Revisions to TI's code of ethics.
 - Overseeing an annual evaluation of the board and the committees.

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The Governance and Stockholder Relations Committee met 8 times in 2006. The Governance and Stockholder Relations Committee holds regularly scheduled meetings and reports its activities to the board. The dates on which meetings will occur are generally set three years in advance to coincide with board meetings. See page 5 for a discussion of stockholder nominations and communications with the board.

DIRECTOR COMPENSATION

The Governance and Stockholder Relations Committee has responsibility for reviewing and making recommendations to the board on compensation for non-employee directors. The board makes the final determination of compensation for non-employee directors. The Committee has no authority to delegate its responsibility regarding director compensation. In carrying out this responsibility it is supported by TI's Human Resources organization. The Chairman, the CEO, the senior vice president responsible for Human Resources and the Secretary also review the Committee's recommendations. The Chairman and CEO also vote, as members of the board, on the compensation of non-employee directors.

Following are the compensation arrangements for all non-employee directors from January 1 to November 29, 2006:

- Annual retainer of \$70,000 for board and committee service.
- Additional annual retainer of \$10,000 for the chair of the Audit Committee.
- Additional annual retainer of \$5,000 for each of the chairs of the Compensation Committee and the Governance and Stockholder Relations Committee.
- \$1,000 per day compensation for other activities designated by the Chairman.

Under the terms of the Texas Instruments 2003 Director Compensation Plan (Director Plan), which was approved by stockholders in April 2003, all non-employee directors also received a 10-year option to purchase 15,000 shares of the company's common stock. The purchase price of the shares is 100 percent of the fair market value on the date of grant. These nonqualified options become exercisable in four equal annual installments beginning on the first anniversary date of the grant and also may become fully exercisable in the event of a change in control (as defined in the plan) of TI.

In 2006, the Governance and Stockholder Relations Committee reviewed the market for director compensation. As a part of this effort, it retained Pearl Meyer & Partners as its independent consultant to advise on market practices. The chair of the Compensation Committee approved the engagement of the consultant for this purpose. The

Committee also considered compensation practices at TI, including the use of both restricted stock units and stock options at the executive officer level. Following its review, the Committee recommended to the board and the board approved changes to the compensation of non-employee directors. Effective November 30, 2006, the compensation arrangements for non-employee directors are:

- Annual retainer of \$80,000 for board and committee service.
- Additional annual retainer of \$20,000 for the chair of the Audit Committee.
- Additional annual retainer of \$10,000 for each of the chairs of the Compensation Committee and the Governance and Stockholder Relations Committee.
- Annual grant of a stock option to purchase 7,000 shares of TI common stock. The terms of the stock options are as described above.
- Annual grant of 2,500 restricted stock units. The restricted stock units vest on the fourth anniversary of their date of grant and upon a change in control as defined in the Director Plan. The director may defer settlement of the restricted stock units at his or her election. Upon settlement, the director will receive one share of TI common stock for each restricted stock unit. Dividend equivalents are paid on the restricted stock units at the same rate as dividends on TI common stock.
- \$1,000 per day compensation for other activities designated by the Chairman.

The board has determined that grants of equity compensation to non-employee directors should be timed to occur when grants are made to our U.S. employees in connection with the annual compensation review process. Accordingly, equity grants to non-employee directors are made in January. Please see the discussion regarding the timing of equity compensation grants in the Compensation Discussion and Analysis at page 20.

Directors are not paid a fee for meeting attendance, but we reimburse non-employee directors for their travel, lodging and related expenses incurred in connection with attending board, committee and stockholders meetings and other designated TI events. In addition, non-employee directors may use company aircraft for travel to and from these meetings and other designated events. On occasion, directors' spouses are invited to attend board events; the spouses' expenses incurred in connection with attendance at those events are also reimbursed.

Under the Director Plan, some directors have chosen to have all or part of their cash compensation deferred until they leave the board (or certain other specified times). The deferred amounts were credited to either a cash account or stock unit account. Cash accounts earned interest from TI at a rate (currently based on published interest rates on certain corporate bonds) set forth in the Director Plan. For 2006, that rate was 5.22 percent. Stock unit accounts fluctuated in value with the underlying shares of TI common stock, which will be issued after the deferral period. Dividend equivalents are paid on these stock units. Please see the Director Compensation table below for information regarding individual directors' deferred compensation.

We have arrangements with certain customers whereby our employees may purchase specific consumer products containing TI manufactured components at discounted pricing. Under these arrangements, directors were entitled to participate on the same terms and conditions available to employees.

Non-employee directors are not eligible to participate in any TI-sponsored pension plan.

2006 Director Compensation

The following table shows the compensation of the company's non-employee directors for services in all capacities to TI in 2006, except as otherwise indicated.

**Change in
Pension**

Name	Fees Earned or Paid in Cash \$(1)	Stock Awards \$(2)	Option Awards \$(3)	Non-Equity Incentive Plan Compensation (\$)	Value and Nonqualified Deferred Compensation Earnings	All Other Compensation \$(4)
J. R. Adams	\$74,167	0	\$177,750	0	0	\$ 2,876
D. L. Boren	\$76,249	0	\$177,750	0	0	\$ 14,507
D. A. Carp	\$74,583	0	\$177,750	0	0	\$ 9,571
C. S. Cox	\$70,833	0	\$175,526	0	0	\$ 260
G. W. Fronterhouse	\$70,833	0	\$177,750	0	0	\$ 23,353
D. R. Goode	\$70,833	0	\$177,750	0	0	\$ 13,397
P. H. Patsley	\$78,334	0	\$175,526	0	0	\$ 260
W. R. Sanders	\$72,499	0	\$177,750	0	0	\$ 26,991
R. J. Simmons	\$70,833	0	\$175,526	0	0	\$ 3,391
C. T. Whitman	\$70,833	0	\$175,526	0	0	\$ 260

(1) Includes amounts deferred at the director's election. As discussed above, directors can elect to defer all or part of their compensation. The table below shows the percentage of 2006 compensation deferred by each director and the total plan account balance representing all amounts each director has elected to defer since becoming a member of the board, and earnings on those amounts, as of December 31, 2006.

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Name	Percentage of 2006 Compensation Deferred (a)	Balance as of December 31, 2006, of Deferred Compensation Account (b)
J. R. Adams	100%	\$ 622,166
D. L. Boren	10%	\$ 84,442
D. A. Carp	100%	\$ 643,594
C. S. Cox	0%	\$