AMERITRADE HOLDING CORP
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This filing consists of the transcript of the joint investor conference call held on June 22, 2005 by Ameritrade Holding Corporation and TD Waterhouse U.S.A.

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P R E S E N T A T I O N

Operator

Good afternoon, ladies and gentlemen. My name is Paul, and I will be your conference facilitator today. At this time I would like to welcome everyone to Ameritrade Holding Company s corporate announcement. (OPERATOR INSTRUCTIONS). I would now like to turn the conference over to Ms. Donna Kush. Please go ahead, ma am.

Donna Kush

Thank you, Paul, and good afternoon, everyone, and thank you for joining us. I would like to ensure that all listeners are aware that there will be two calls this afternoon. The first call will be hosted by Ameritrade and is expected to last approximately one hour and will include a question-and-answer session. Once we have answered your questions and completed our closing remarks, the operator will inform you that the first call is completed.

After a five-minute break, we will begin the second call hosted by TD Bank Financial Group for its shareholders and analysts. Participants of the Ameritrade call are welcome to remain on the line for the second call.

By now you should have received the copy of our for press release that was faxed or e-mailed to you. If you have not, please call our Investor Relations Department and we will fax or e-mail one to you immediately. Otherwise, you can view a copy of our release and slides, listen to the call and submit any questions to us via our website at amtd.com.

Also, if you want to contact us directly after the conference call, please call Investor Relations at 800-237-8692, or for media inquiries, contact Corporate Communications at 800-400-1336.

Before we begin, I would like to note that this call contains forward-looking statements that are made pursuant to the Safe Harbor provisions of the Federal Securities laws. For this purpose, any statements made that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, and similar expressions are intended to identify forward-looking statements. There are a number of the important factors that could cause the Company s actual results to differ materially from those indicated by such forward-looking statements, including factors set forth in our most recent 10-K and 10-Q filings with the SEC and in the press release that we issued this morning. We specifically disclaim any obligation to update our forward-looking statements even if our estimates change.

Please note that this call is intended for investors and analysts and may not be reproduced in the media in whole or in part without the prior consent of Ameritrade.

At this time I will turn the call over to Ameritrade s CEO Joe Moglia will be followed by Ameritrade s CFO Randy MacDonald, and then Ed Clark, the President and CEO of TD Bank Financial Group. Joe?

Joe Moglia

Thank you, Donna, and welcome everybody to our call. You know at the first analyst meeting that I hosted when I got to Ameritrade in the fall of 2001, I talked about that ultimately Ameritrade would move toward a client segmentation strategy that addressed the needs of the long-term investor. Well, today we are actually realizing that dream.

The new TD Ameritrade we believe is absolutely the best combination for our clients and our shareholders. First, let s take a look at it strategically.

It only enhances the position that we already have in the active trader space, and it immediately puts us into the segment where the long-term investor exists, and it makes us a player in the advisor market.

Besides that, we will develop a strategic and business relationship with TD Bank which has a 150-year-old tradition. We will be able to get most of the benefits from the bank, but yet have minimal costs and minimal risks that are associated with the banking business. From a financial perspective, we believe we are going to deliver superior returns. We are expecting growth synergies of $578 million, and if you assume full synergy realization and combine that with the last 12 months as of March, 2005, there will be 39% EPS accretion, the combined adjusted revenue will be about 1.8 billion, combined adjusted net income around 557 million, but I think even more than that, as we shift our revenue mix to more of an asset-based driven approach, we think over time that will command a higher multiple in the marketplace.

Now when you look at our execution risk, I think most of you know that 75% of most mergers wind up failing. The single most significant reason why that happens is because companies fail on the integration. In the last three years, we have done seven integrations. We are seven and 0 in the execution of those integrations, and we absolutely plan on continuing that undefeated streak.

Now if you look at the right hand side of the slide, you know I think intuitively intuitively when you add branches, you add investment centers, you add a long-term investor business, add the RIA business, you would automatically assume your margins would go down. In this case, our margins will ultimately go up.

Now the next slide, frankly, it is simple, and I love this slide, and that is probably the reason why I love it. I cannot articulate better than the picture that actually exists in this diagram.

TD Ameritrade can now provide whatever the individual investor needs. Anything from a do-it-yourself online experience to branches and advisors for people who want help in managing their own money. Where we are strong, we are now going to be stronger. So in the active trader space, all we are doing is adding significant scale. That should go right through our pretax line.

Where we wanted to participate we are now going to be real players. You know we talked about Amerivest now for a while, and we love that as a product. But Amerivest combined with the long-term investor business that already exists takes us significantly ahead of where we could have been without that.

When you look at our RIA business, it s a nice little business. But combined with TD Waterhouse, we become the number three player in the advisor business in this country.

Now let me take you through the next bubble chart. If you look at the graph, if you look at the two axis, they basically consist of the pretax margin and pretax income. The actual size of the bubble represents the PE of that individual company.

Now we believe by maintaining our margins and even growing our margins and delivering sustainable profitable growth, plus getting into the asset gathering business, plus gaining most of the benefits of a bank with minimal cost and risk associated with that, we will ultimately expand our multiple. That is the point of this bubble chart.

Now the next slide basically gives you a summary of the transaction terms. What we are looking at is a 68/32% deal. There will be a $6 a share dividend to be paid to Ameritrade shareholders. $5 of that will be funded by borrowings and excess cash or excess liquidity that already exists at Ameritrade, and $1 a share will be funded through excess capital at TD Waterhouse USA. That is a $2.4 billion dividend that is getting paid to our shareholders. Ameritrade Canada will be sold to TD Bank for $60 million. TD Bank will tender an additional 7.9% of their shares immediately after closing at $16 a share ex- dividend. TD Bank will be limited to ownership of no more than 39.9% of the outstanding shares for the next three years for the three years after closing and no more than 45% of the outstanding shares in years four through 10 unless they tender for 100% of all the outstanding shares and receive approval by the unaffiliated directors and shareholders. Joe Ricketts may also participate in a tender offer to take their ownership up to 29%.

The makeup of the board will consist of 12 members. There will be five TD Bank representatives, including Ed Clark, the CEO of TD Bank who will be Vice Chairman of TD Ameritrade. There will be three Ricketts family representatives, including Chairman Joe Ricketts and Peter Ricketts will now be promoted to President of TD Ameritrade. There will be three independent representatives selected prior to the close, and I as CEO will also be on the board. We would expect normal approvals from the regulators as well as Ameritrade shareholders.

With regards to the timing, we would expect that closing should take place comfortably within six months, and we would expect with regards to the synergies that all of those will be realized six quarters after the close.

Now the next slide just highlights what some of the combined metrics would look like as of the end of the March quarter. We will be doing about 240,000 trades per day. We would have around a little over $7 billion in prior margin balances. A little over $34 billion in client cash balances. That is about 16% of client assets. We will be doubling I m sorry we will be almost doubling the number of qualified accounts we have to a little over 3.2 million, and our overall account base will be a little over 5.9 million. Client assets at Ameritrade will now be about $220 billion, and clearly we are significantly extending our RIA relationships, and we now have a full-scale branch network.

To help you walk through the numbers, let me turn it over to Randy MacDonald, our CFO.

Randy MacDonald

Let s turn to the next slide, and it is titled Combined Results with Full Synergy Realization, page eight. And what you have here are the historical financials for the last 12 months ended March 2005 for Ameritrade adjusted, which is to remove Canada because it is being sold to TD Canada for 60 million and then TD Waterhouse USA. That means the new company is TD Ameritrade, and that is before we count any synergies. That entity would have 1.6 billion in revenues and also have one of the best pretax margins in the industry of 33%.

Now for purposes of this analysis, full synergies are that we are going to assume all revenue opportunities and expense synergies are realized on day one. So growth synergies are revenue opportunities from bank suites of 200 million, operating expense savings of 328 million, plus advertising savings of another 50 million. So these growth synergies total 578 million.

Now I will go through the details of each of these on the next couple of slides. We also included four adjustments to the growth synergies of 578 million. The first is attrition, which is assumed to be equal to an extra 5% of the retail revenues of TD Waterhouse USA for just the first year, and that would be 27 million.

The next is the intangible asset, which is assumed to amortize over a 20-year period. The assets assumed to be the same percentage of the deal price as was recorded in the Datek deal, about 32% or $42 million, and that is net of the assets acquired.

We will also be inheriting a fully built out branch network of physical locations. Therefore, we have assumed no cost to build this out. So that gets us to net synergies of 509 million. And finally, we are assuming a borrowing of $2 billion, so we would incur interest expense of 120 million. That is when the pretax margins move to 52%.

So assuming full realization of synergies, TD Ameritrade would have 1.8 billion in revenues, produced 557 million in net income, $0.92 in EPS, and be 39% accretive to EPS of Ameritrade adjusted for the last 12 months.

Now let me go back and explain the borrowing. We planned to pay out a dividend of 2.4 billion, and TD is contributing 400 million. So to be conservative, we re just assuming the rest is 2 billion in borrowings. So this is not including the liquid assets that we have today of 283 million, nor does it include the 60 million that we planned to get on the proceeds of the sale from Canada.

So now let s go to the next slide, which is titled Revenue Opportunities, page nine. And we have three philosophies on our revenue opportunities. The first is that we plan to accelerate the Ameritrade Bank strategy by renting the capital and the expertise of a 150-year-old bank. Now our strategy for obtaining these revenue opportunities involves much lower risk than being in the banking business, and all the yields that you see on this slide are consistent with the bank s service level agreement with TD s Bank.

Next, the philosophy of the portfolio we are running is an investment portfolio, and it is not a lending portfolio. So we will have minimal credit risk.

Third, we are extending out the portfolio in duration to two years. That is to match the estimated duration of our core deposits. So this means there is no gap in the lives of the assets and the liabilities. So that means we save the cost of hedging such GAAP risks and minimizing interest rate risks.

Now there are four major asset types that make up the revenue opportunities. The first one is 13 billion in money market funds. Now currently we earn a concession fee of approximately 80 basis points on these balances. So there is opportunity to move approximately 15% of the balances or about 2 billion from the money market fund to an FDIC product. That would earn a net spread of 285 basis points, so that is a pickup of 205 basis points. This nets in revenue opportunities of 41 million annually.

Next is 9 billion in MMDA. TD has been successful at moving over 2.5 billion from the money market fund to the FDIC insured deposits over the last couple of years. The existing FDIC product is currently yielding 2.81% and paying the customers 96 basis points. So by extending 85% of the portfolio to two years to match the estimated life of deposits, the new yields is 3.81%. We assume the same cost for client payments, so that means we are earning an extra 100 basis points on approximately 7.8 billion, and so this will yield an extra 78 million.

Third, we have 6.2 billion in free credits. We will extend the maturity of 85% of that portfolio, approximately 5.3 billion, also to two years to match the deposit life, and yield pickup there is 144 basis points and that is for an extra 76 million.

And lastly, we have 7.3 billion in margin debt. The over 7 billion in margin lending done by the combined companies creates a securities lending box that approximates 10 billion of lendable securities. The combined Company will be able to leverage its strong stock loan business to pick up about 50 extra basis points on about 1 billion of securities, and that is a revenue opportunity of about 5 million.

Now unlike our expense synergies which are onetime, these are growing and continuing opportunities and can be positively impacted by rising interest rates. And just as important to note, these opportunities are based on only approximately 40% or 15 billion of the 36 billion in investment earning assets.

So let s go to the next slide, slide 10, which is titled Expense Synergies slide. Now with our acquisitions of NDB and Datek, plus five other acquisitions, we have a management team with a proven track record for successful integrations. Part of our due diligence process is to develop the hypotheses by which our management team would execute the integration. The team has spent many hard hours in due diligence, and they feel good about this opportunity. We plan to realize the equivalent of 59% of TD Waterhouse USA s last 12 months in expenses.

So beginning on the left side of the slide are the Ameritrade expenses for the last 12 months ended March of 433 million. Next to that are TD Waterhouse USA s last 12 months expenses of 643 million. So the combined Company would have an expense load of just under 1.1 billion. The synergy column is the full amount of expense synergies we expect to realize once we get to an ongoing expense load of 698 million.

Now our plans include picking the best people, products, system and processes. As with all of our integrations, we will have four main objectives. We have worked really hard to acquire our clients, and we want to retain all of them, so client retention is our number one goal.

Second is to realize all the synergies within six quarters. Third is to come out the other end of this journey with operational excellence. That is to have more streamlined processes including greater capacity, flexibility, reliability and scalability. And lastly, woven throughout all of these objectives is our commitment to associates of both companies that we will communicate openly and frequently and that we will continue to treat each of them fairly, equitably and with respect.

Now at this point let me turn the call over to Ed Clark, President and CEO of TD Bank Financial Group, and my new best friend.

Ed Clark

Thank you, Randy. As you know, we re going to have our own call to focus on how this transaction impacts the TD Bank Financial Group right after we finish the Ameritrade call. So I m not going to take up a lot of time on this call talking about the TD Bank.

But I think it is important to spend a minute to focus in on what we have achieved with this deal. If there is one thing that everybody has been able to agree on in the online brokerage business it is that there is strong pressure to consolidate. Neither of us needed to do a deal. We both wanted to do the right deal financially as well as strategically.

This deal generates immediate benefits available in any consolidation play. A 39% accretion for the Ameritrade shareholders and an immediate $6 dividend. But it is also about a strategic combination available only with these two companies, a company with long-term growth potential to add further value for the shareholders.

Joe and I shared a view on how this can be achieved. We wanted a combined entity that was focused on wealth management. We wanted an entity that would have a great currency, a higher PE and an ability to make future acquisitions. But we also wanted a company that was able to fully serve a full-spectrum of the investors from the active trader to the long-term investor. Ameritrade owns the active trader space and has a best-in-class online trading platform. But it recognized that it needed to attract the long-term investor and expand its asset gathering capabilities. These are the areas of strength that TD Waterhouse and TD Waterhouse alone could bring to Ameritrade serving the long-term investor directly and through the independent financial advisors, our extensive branch network and our strong marketing and product suite. Combining these two strong complementary franchises creates an industry powerhouse.

Finally, to be a winner in this space in the long-term, you need to have the best management team. This transaction builds upon the strength of Ameritrade s proven leadership team, with the focused strength of TD Waterhouse management and creates the best management team in the industry. The Ameritrade leadership team has a proven track record in consolidation. To me when you are consolidating two companies in a consolidated industry, you want to go with a management team that has a set of successful mergers under their belt. That is Joe Moglia s team. They are the ones with the knowledge, experience and judgment to make it work. Execution matters.

TD Ameritrade is a powerful combination and will be an unbelievably strong competitor going forward. This transaction and the position that TD Ameritrade will hold in the marketplace will generate enormous value for the Ameritrade shareholders. It is also an excellent deal both financially and strategically for TD shareholders. In the long-term, as a major shareholder, our interests will be aligned with all the TD Ameritrade shareholders in driving for significant shareholder value. We are very excited by the future, and we see unbelievable potential for future acquisitions. This deal solidifies our two distinct areas of focus in the United States, online brokerage through TD Ameritrade and retail commercial banking from TD Bank.

You can listen in on our call if you would like to hear more about the transaction from TD s perspective. Thank you and back to Joe.

Joe Moglia

You know, folks, any deal we could have done would have had excellent synergies and would have had excellent profitability. But the TD Ameritrade deal specifically was the only one that rounded out our client segmentation strategy, that gets us into the long-term investor space, makes us the number three player in the United States in the advisor business, gives us a full-scale branch system, gives us investment centers, gives us a strategic relationship with TD Bank where we get most of the benefits of the bank with minimal costs and risks associated with that. It puts us into the asset gathering business, and as I said before, that combined with the maintenance and the growth of our margins, as well as delivering sustainable profitable growth over time, we believe should expand our multiple.

Now you have heard me say this again and again, that we will do we will at least aggressively work to try to do any deal that ultimately is a real benefit long-term for our clients and our shareholders. We just did that. Don t assume, however, that consolidation for the industry is over, and don t assume that it is over for Ameritrade.

Now on a personal note, as far as I go, there have been a lot of questions as to what is going to happen to me over the span of the last year and a half. Well, that is speculation should be over now. I could not be more excited or proud to stay on as CEO of TD Ameritrade.

With that, let me open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Rich Repetto, Sandler O Neil.

Rich Repetto

(multiple speakers). First, congratulations on the deal. The first question is, can you spell out the lockup agreement? Is there a lockup agreement, and could you spell out what it is between yourselves and TD?

Joe Moglia

Yes, there is a shareholder s agreement, so there is a commitment to both the shares. But there is an opportunity for the board to change their minds, if, in fact, the independent committee of the board comes to a view that there is clearly a superior offer to what we have on the table.

Rich Repetto

Okay. And then could you outline who is on the independent committee, and then is there a breakup fee?

Joe Moglia

There is a small breakup fee. Mark Mitchell has been the Chairman, Dan Cooke (ph)

Randy MacDonald

Michael Fleischer (ph).

Joe Moglia

Michael Fleischer.

Rich Repetto

So they are the only ones that evaluate if there was a superior offer out there?

Joe Moglia

Yes.

Rich Repetto

Okay. Second question is, Joe and Ed, you have talked about significant synergies much more higher than the market I think was anticipating for an Ameritrade TD Waterhouse combination. On the bank side, do you foresee any issues in regards to regulators? Have we walked through this process to get the 200 million good hunk of your over 500 million in synergies through blank regulators?

Joe Moglia

We have spent hours and hours and hours on this, and everything is very much coordinated, and we don t anticipate any issues or problems.

Ed Clark

There is already an agreement between TD Waterhouse Bank and TD Waterhouse Brokerage, and we are really taking out that arrangement to (technical difficulty) now to TD Ameritrade.

Rich Repetto

Okay, great. But if you look historically at what you did with TD Waterhouse Bank prior at least to what showed up in their first filings in the U.S., the spreads you know you did not have you had yields much less and spreads much less. Was that carried on your balance sheet prior?

In other words, we have looked at the way TD Waterhouse Bank in the U.S. when they filed the thrift reports, they were much smaller yields and much smaller margins overall. So are we doing anything just saying that we have already done that, and I am just trying to see where that showed up prior?

Ed Clark

Because what you are looking at is what the spread that is left in the TD Waterhouse Bank after the spread has the service agreement with TD Waterhouse, and so those profits are showing up under TD Waterhouse.

Rich Repetto

Okay. So (multiple speakers)

Ed Clark

The profits we are seeing here that will now show up in TD Ameritrade.

Rich Repetto

Understood, okay. Okay. Next, Joe, you know the significant savings looked like they are in comp and (inaudible) and in another. I was just trying to get a feel for how many branches when you go to I know you have thought about it for a while now so how do you rationalize the branch structure? How do you think about people in that comp and (inaudible) business, the significant hunk of these expense synergies are there? So any color on the comp, and then this other line has 60 million or so in expense savings there as well?

Joe Moglia

I think, Rich, the bottom line is, you know as we move forward over the span of the next several months, we are going to go back to our postulates and our old principles. All the resources at TD Ameritrade are meant to exist for the benefit of our clients and our shareholders. Where those resources are not doing that, they will be redeployed in a way that does. If there are resources that are redundant, they will be eliminated.

With regard specifically to the branch structure, we have said all along that building out our own branch system is one thing. Inheriting one is yet another, and that the potential advantage to the branch system for us going forward would be a nicely rounded out our long-term investor strategy.

So going forward what we have not yet made final decisions as to exactly what we re going to do on that. But as we have in the past, at each of our earnings calls going forward, we will give you an update, Rich, as to exactly where we stand then. But it is difficult to give you too much detail on that if a), final decision has not been made, or b), more importantly, those decisions have not been communicated to our people. (technical difficulty)

Operator

Ladies and gentlemen, we are experiencing some technical difficulties. Please continue standing by. The conference will resume in just a moment.

Joe Moglia

Hey, folks. Rich, can you hear me?

Operator

Mr. Moglia, you are back in the main conference. Please resume whenever you are ready.

Joe Moglia

Well, we are ready to resume. Rich, did you get the entire answer there? (multiple speakers). Okay. Operator, who is the next ?

Operator

Mike Vinciquerra, Raymond James.

Mike Vinciquerra

Listen, I wanted to ask one thing. First of all, the first thing you did when you came into Ameritrade a couple of years ago was that you completely cleaned up the balance sheet and got rid of all the debt. I wanted to make sure that you had all the cash flow you needed. So help us understand the leveraging of the balance sheet here? Why it is necessary? It seems like maybe one of the reasons is to free up cash for TD to make the tender offer that they are looking at, and I don t know if that is the main reason, but if you could share some thoughts there?

Ed Clark

Maybe I will just address that note. None of the leverage is going for our tender offer. We are supplying the cash 100% for the tender offer.

Joe Moglia

And that is as far as the tender offer goes. The leverage a good part of that leverage, though, in fact, 100% of that leverage would be used for a payment of the dividend to our shareholders, to our current shareholders as of the record date.

Keep in mind there have been a lot of questions over the span of the last couple of years. There is, what is the right capital structure? To what extent does it make sense to be levered. And we said all along that that was something we were looking at.

Keep in mind also that this deal will be throwing off an incredible amount of cash, and what we wanted to do was lever the company to an extent in an effort to be able to reward our current shareholders with some of that opportunity.

Mike Vinciquerra

Have you received requests from shareholders over time, Joe, to potentially increase the cash going to them because it seems like most folks have been happy with your efforts to use the cash to buy back stock and kind of go at it that way?

Joe Moglia

I think that is accurate. Most people have been happy with regards to buying back with us buying back our stock. Remember that the real appreciation in our stock will ultimately come after we have delivered on the synergies and where we stand at that particular point in time, number one. We would assume, and if you run the math, with the amount of cash that we generate, there is a reasonable chance that within a couple of years we will have paid off the vast majority of that debt. So that would certainly allow us to use the cash for different reasons then. We thought this was a nice way to be able to reward our shareholders at this particular point in time, and we are very comfortable with about 30% debt on our balance sheet.

Mike Vinciquerra

Okay, very good. That makes sense. And then, Randy, just on the 7% cost you are assuming, what indications have you gotten? Like how far out are you going on the curve with that debt offering and where did you is 7% comfortable or is that conservative in your mind?

Randy MacDonald

That is comfortable. It is after consultation with the investment bankers.

Mike Vinciquerra

Okay. And then just one other question if I could. I m just trying to understand order execution. I believe that if I m not wrong that TD Waterhouse did internalize at least on the NASDAQ side roughly 30, 35% of its order flow. The rest of it, the majority going to Knight. Can you help us understand how this will affect where you send your orders? Will you be able to internalize any, or is the market-making operation not coming with this transaction?

Ed Clark

No, the market-making operation, Mike, is part of the transaction, but that will be one of the decisions that we will be looking at carefully over the span of the next several months. Remember we have only got one objective. What is the best possible thing we can do for our shareholders and our clients, and that is how we will look at that.

Mike Vinciquerra

Okay. So net net you really have not factored into your synergies a potential to gain further benefits from the order flow that you guys will have as a combined company?

Joe Moglia

Very little.

Mike Vinciquerra

Great. Thank you, guys.

Operator

Bill Panona (ph), J.P. Morgan.

Bill Panona

I guess with your last closing comments there in terms of succession, we don t have to worry about you not staying on past September? Is that right?

Joe Moglia

That is correct.

Bill Panona

Okay. And then in terms of timing for this deal, as well as what you suspect the dividend will be?

Joe Moglia

Well, we are announcing it today. We are certainly optimistic that we should be able to comfortably close no later than six months from now. We are comfortable with regards to the integration. We can deliver on the full synergy realization within a year and a half, and as far as the dividend goes, there will be a $6 dividend that will be paid to Ameritrade shareholders of record prior to the close, ex- dividend.

Bill Panona

Okay. That is helpful. And then in terms of additional revenue synergies, I mean looking at what you had spelled out there, it looks like you re being pretty conservative as it stands with the money market funds, only assuming 15% conversion rate there. Is there any reason why you are so low in terms of that assumption, and am I right in assuming that there could be an additional 250 million of additional revenue synergies if you could convert that a whole lot?

Joe Moglia

I m not sure if you should start to make those conversions right now. Understand that when Randy walked through the synergies, as well as the revenue opportunities, he said that this is something we very much believe we can deliver on. And frankly, as we dig deeper and as we work more closely with our new colleagues, we will make those decisions. But we re not prepared to commit to that yet.

Bill Panona

Okay. That is fair enough. And then just lastly, in terms of pricing, obviously I think TD Waterhouse has a little bit of a different pricing structure. I wanted to know what your pricing structure is going to be of this combined entity? And is that also factored into some of these revenue synergies if you are looking on changing pricing?

Joe Moglia

Number one, one of the things that is really sacrosanct in the regulator s mind is that there can be no discussion of pricing between ourselves and TD Waterhouse USA until we actually close, number one.

Number two, as we talk about pricing in general, remember we have talked about the approach that we will have will be our client segmentation strategy, different value propositions to different types of clients. So that still needs to be worked out, and we are prohibited from having those types of discussions with TD Waterhouse until, indeed, after the deal closes. But no incremental revenue opportunities were included in this as far as pricing goes.

Operator

Rich Repetto, Sandler O Neil.

Rich Repetto

Can you hear me?

Joe Moglia

Yes, Rich, did you get all of our answer last time?

Rich Repetto

No, I did not. I thought you cut me off. (multiple speakers)

Joe Moglia

Why don t you just what is it that you still need for us to answer?

Rich Repetto

Just a follow-up on the special board committee that will evaluate a superior bid. That just evaluates whether you need to relook at it. The full board would still need to approve any let s just say if there was a competitive bid, is that correct?

Ed Clark

Yes, that is correct. (inaudible)

Rich Repetto

Okay. And then actually the question was more on the expense side. On the other, you know you ve got a hunk of maybe Randy can answer it but 65 million in other coming on. I m just trying to figure out what ballpark that would be in general?

Randy MacDonald

Yes, there is a number of things that go in there, but a large component of that is the capital markets business.

Rich Repetto

Okay. Okay. And then very last question would be so just to go through the mechanics of this, the $6 special dividend gets paid to Ameritrade shareholders right at close, and then the stock trades down or trades ex- dividend, and then you commence Ed s tender offer or Joe Ricketts tender offer post that. Is that the way that this works?

Ed Clark

I think I always put it in simplest terms for those shares that get tendered into the tender offer effectively the total price is $22. $6 dividend, plus $16 price for the shares.

Rich Repetto Okay, so yes I get it. So they will get awarded the $6 dividend and then ?

Ed Clark

Turnaround and tender into our share offer of $16 after the dividend.

Rich Repetto

Understood. I think that is all I have.

Joe Moglia

Rich, I apologize about that before. I swear that we did not do that intentionally.

Rich Repetto

I thought you would take a route of swearing at me in Italian or something rather than cut me off. But that is okay.

Joe Moglia

(Speaks Italian language). Chiao, Rich!

Operator

David Trone, Fox-Pitt Kelton.

David Trone

Good afternoon. A couple of questions. Number one, what is your assumption for customer attrition?

David Trone

It is the same attrition that we have always experienced, plus the same attrition that has that TD Waterhouse USA has experienced. Plus on top of that, we added an incremental 5% to TD Waterhouse USA clients for the first year.

David Trone

Okay. Thank you. And you made some pretty bold comments about your desire to acquire in the future. I wonder how quickly do you think you would be able to do something let s just say, coincidentally half your size? And also wouldn t the $6 cash, giving up the $6 cash, wouldn t that kind of run counter to that strategy?

Joe Moglia Okay, number one, just in terms of acquisition philosophy going forward, all I was trying to say is that that has not changed with regards to our strategy or our philosophy. The one number one objective obviously is for us to be able to deliver on the integration, but as we look at opportunities down the road, if we believe they are in the best interests of our shareholders and our clients, we will look hard to be able to do that. I just did not want anybody to think that we were all of a sudden out of the consolidation game, number one.

Number two, the ability, the $6 dividend is not going to have any impact on that other than the fact that if there were a smaller acquisition that we could have made, well, now we may not have available cash for that. But that would be the only difference. And not having available cash in the past has not prevented us from doing an acquisition that we thought made sense.

David Trone

So to try the question again, how quickly do you think you would be prepared to make an acquisition of meaningful size?

Joe Moglia

Right. It is almost impossible to answer that. So I would   I cannot give you a specific answer on that one.

David Trone

If you had to choose between six months and a year and a half, which would it be?

Joe Moglia

David, you are being really, really, really tough on me here.

David Trone

That is all right. Okay. Joe, just to be clear, there is no nondisclosed contract of any sort that has a finite end for your CEO position?

Joe Moglia

Correct.

David Trone

It is completely open-ended? Okay. And one more question and I apologize if this is in the material and I just did not catch it. The Ricketts family gets capped at 29%. What will it be starting out?

Joe Moglia

Well, they will be approximately 19% and change.

David Trone

Okay. Thanks again and congrats.

Joe Moglia

Matt Snelling (ph), Friedman Billings Ramsey.

Matt Snelling

I was just wondering if you could give us a little color on the revenue breakout with TD Waterhouse, how much is coming from commissions, how much coming from CEs, how much coming from spread?

Randy MacDonald

Yes, we are going to probably post that on the website for everyone to see. We decided not to do that on this call, but to put it out there in the same format that we do for ourselves, so we will show the balances and the rates.

Matt Snelling

Yes, well, that would be helpful. And just to be clear, your revenue synergy number does not include a potential price cut or a segment?

Randy MacDonald

Well, we have revenue attrition which contemplates some of that.

Matt Snelling

Right but not a direct reduction?

Joe Moglia

(multiple speakers). That is correct.

Randy MacDonald

That is there. Joe answered the question earlier, but I think that I would encourage him to talk, too, about what we can talk about is the spectrum of the business and you know there is we have anything from do-it-yourself completely online all the way through to handholding in a branch with advice. And I don t think those are all going to be at the exact same price point.

Matt Snelling

No, I understand.

Randy MacDonald

Yes. So we have contemplated it (multiple speakers) and I think it s going to be within the revenue attrition line.

Matt Snelling

Okay and I apologize if I missed this earlier, but are you not closing any of the branches down?

Joe Moglia

We have not made that decision yet. We will be evaluating that over the span of the next several months. We will be looking at the profitability of each bank I m sorry each branch and how it is handled, etc, but those decisions have not been reached yet.

Now remember a caution to all of you as we go through this, because something similar did happen with Datek. Our number one priority is obviously to deliver to our shareholders and to take care of our clients. That is what we want to try to do. But we cannot do either one of those without taking care of our employees and our associates. It is absolutely paramount for us that those internal communications take place first before we expose that to the street.

So that is why we have always done I think a good job of updating you every earnings call, but we cannot give you too much of a forward picture if a), a final decision has not been reached or has not been communicated internally. And I need you all to work with me a little bit on that one.

Matt Snelling

Okay. But, Joe, your expense numbers, do they include any assumptions of branch closures?

Joe Moglia

The answer is yes.

Matt Snelling

Okay, I will leave it there.

Joe Moglia

Clearly, Matt, we re not getting into the specifics. Some, I m not suggesting all.

Matt Snelling

I understand.

Joe Moglia

Okay, right.

Operator

Jim Maga (ph), Millennia Partners.

Jim Maga

Congratulations, Joe. It s a great deal for shareholders.

Joe Moglia

Thanks, Jim. I appreciate it.

Jim Maga

I do want to ask you guys a couple of nitpicky questions on numbers if that s okay if Randy is still in the room.

Joe Moglia

Randy is in the room.

Jim Maga

Okay good. Number one, on the slideshow, I m going to the slideshow for August. So on the slideshow, the interest on borrowings, page eight, should that read 140 million in order for it to tie to the footnote five?

Randy MacDonald

That is a good question. No because we are assuming that some of the debt is paid down over the year.

Jim Maga

Okay. All right. That is a good clarification. Then I need to ask you guys about the timing of the cost savings.

Joe Moglia

We have that in footnote number two on that same page. So in the first year we would expect to have 40% achievement. At the end of year two or in year two 90%, so that means certainly by the sixth quarter, which would be the midpoint of the second year, we would be at 100%. So that means the third year is 100%.

Jim Maga

What does that mean, though, relative to the calendar, you guys? That is what I m trying to figure out.

Randy MacDonald

Well, that would be from the time the gun went off, so from the time of close.

Jim Maga

From the time of close. So if you close just for the sake of argument, if you close at 12/31, year one is going to be 2006?

Randy MacDonald

Yes. Well, yes. I m going to qualify my answer by saying we are a September year-end company, but that would be the calendar year. Correct. So 40% in 06 achievement of synergies.

Jim Maga

So if I m looking at this correctly, you are going to have 578 million of synergies to add to your combined to add to your combined pretax of 540, but the 578, you only take 40% of that, right?

Randy MacDonald

Correct.

Jim Maga

But then you re going to have interest on the full amount. You re going to have some revenue attrition. You re going to have all of the intangible expense.

Randy MacDonald

Correct.

Jim Maga

But you re going to have the full share base. You re going to have to have earnings accretive to the $0.66, but not accretive to what Ameritrade earns stand-alone?

Randy MacDonald

Correct.

Jim Maga

So you will have a down year in earnings in 06?

Randy MacDonald

I don t agree with a down year in earnings, but your math is correct. The way you have stated your conclusion.

Jim Maga

So you will have an up year in net income, absolutely have an up year in net income, but relative to the new share base of 600 million, you have a down earnings year in earnings per share?

Randy MacDonald

Well, the initial combined companies are going to carry 1.1 billion in expense load. So that is why we have TD Ameritrade combined with a 33% margin. So it assumes no synergies. So your math was correct to add in the attrition, the amortization and the interest expense, and then take 40% of the 578.

Jim Maga

Right. So I end up with adjusted I end up with adjusted pretax of 582 million or after-tax of 350 million at 40% rate on shares of 600 million. It hits you around $0.58?

Randy MacDonald

Yes. You are assuming zero growth, too.

Jim Maga

Right, no, absolutely. I m just going steady-state last 12 months March 05.

Randy MacDonald

Right. Your math is correct. We have not come out with projections on 06. What we re trying to do is give you the tools by which you might be able to then project out, but I would not if I were making a projection here, it would not be that we would have it would not be a down year as you stated.

Jim Maga

Why not?

Randy MacDonald

Well, because I think there is enough growth built-in. These are the last 12 months ended March.

Jim Maga

No, I totally understand that. You guys are going to have growth in net income, but mathematically you are absolutely going to have a down year in earnings per share. Do you agree or not?

Randy MacDonald

We have   we will come out with our projections, but we are not doing that right now.

Jim Maga

Okay. Well, congratulations, you guys. This is highly accretive to shareholders.

Joe Moglia

We appreciate it. Thank you.

Operator

Richard Herr, KBW.

Richard Herr

Congratulations on the great deal, guys. Most of my questions have already been asked and answered, but I guess just basically looking at the expense saves. I mean I guess it is safe to assume that most of these call saves are coming from TD?

Joe Moglia

No, I would not automatically assume that. Remember we begin with the assumption we want to do the right thing. We want to do the best thing. So allow us at least for the reasons I gave before, Rich, to make those decisions before we announce where they come from.

Richard Herr

Okay, understood. That is fair. And just kind of walk us through what is the propensity for your synergies expectation to be faster than the 40/90/100, Joe?

Joe Moglia

Well, if you recall when we did the Datek deal, we delivered 95% of all of the synergies within nine months.

Richard Herr

I remember that. Sure.

Joe Moglia

But we would rather   see I think the concern is, is that while we would love to do this as quickly as possible and accelerate all this, it is far more in the best interest of our clients and our shareholders to make sure we re doing the right things, and we are thoughtful about it. So if it takes a little longer, that is okay with us. I m not predicting that it is going to take us a little wanderer, but we will get a better feel for that when we get into the middle of it, Rich.

Richard Herr

Okay, that is helpful. And just lastly, the $22 that was thrown out there for total consideration for Ameritrade shareholders, that would only be 7.9% of the shares, correct?

Joe Moglia

That is correct.

Richard Herr

Okay. So we shouldn t be looking at that as kind of what every shareholder is going to get?

Joe Moglia

No, the way Ed, remember, explained it to you, just sort of like simple math, if you are a shareholder of record ex-dividend, you re going to get on the record date, you re going to get a $6 dividend. There will then be a $16 tender. If you then choose to put your shares into that tender, whatever percentage get tendered gives you a $22 price. That would not be the price that you might calculate for the entire investment base, correct.

Richard Herr

So that is about 32 million shares if my math is correct, and how many do you anticipate Mr. Ricketts purchasing on the tender?

Joe Moglia

That decision will get made today.

Richard Herr

Okay, thank you. Congratulations, guys.

Operator

Howard Chen, CSFB.

Howard Chen

Congratulations, gentlemen. Just a few questions, Joe and Randy. Along Jim s line of questioning before, isn t there a gain on sale for Ameritrade Canada sometime after the transaction closes?

Randy MacDonald

Yes.

Howard Chen

So that would add to fiscal first-year EPS, presumably?

Randy MacDonald

Yes, but that would be extraordinary, yes.

Howard Chen

Right, but it still adds to the reported EPS?

Randy MacDonald

Yes. I think, in response to Jim s question, in my heart of hearts, I do not believe we would actually be below $0.66, but I am not ready to make projections about this combined company.

Howard Chen

Right. I just wanted to make sure that the gain on sale from Ameritrade Canada

Randy MacDonald

That is not how the gain on Canada is not how I would get you to (multiple speakers) higher than 66, so I want to make that clear.

Howard Chen

And, Randy, you mentioned in your remarks that you don t think there will be a need for hedging expenses related to asset liability matching. Can you help us walk through what you are assuming in terms of that two-year duration on the deposit side?

Randy MacDonald

Yes. We go through and do studies on our deposits, and there is a core base that, like any bank, those are sort of perpetual. And then it goes all the way to deposits that come and go daily. And so the aggregate life of that is about two years, so we feel very comfortable when we measure that and go out on the asset side for the same duration.

Howard Chen

And how has that changed, in your mind, in the past 12 months through this kind of Fed tightening cycle?

Randy McDonald

It really hasn t changed much. As a matter of fact, it s interesting; we have actually seen more money come into us. And as you know, we don t pay very high rates, so people are not giving us their cash because of the interest rates that we are paying. But the historical norms we have gone as high as 20%, but as Joe pointed out, in the fall it has been hovering at around 16% for the past couple of years. And that is what the new entity will look like, as well. We also administratively have the ability to reprice on the right side of the balance sheet, so those we administratively are able to change those prices so they don t automatically reprice.

Howard Chen

And then, is there still a need for the current bank charter application that is in process?

Joe Moglia

That will be a decision, again, Howard, we will make over time.

Howard Chen

And then, while I have you on the line, Joe, how do you view the need to consolidate here, given kind of the weak trading environment? We saw pretty sluggish net new account growth in the May numbers. What do you think is driving that on kind of stand-alone Ameritrade? How do you view that along the lines of kind of this deal and consolidation?

Joe Moglia

It sounds like you re asking me two questions one, my view on consolidation of the industry; secondly, view in terms of what is going on as far as net organic growth right now in the industry. Is that fair?

Howard Chen

Yes, but I m curious to think if you view them as linked in any way?

Joe Moglia

I m not sure there is a link with why don t I just answer them separately, and you decide if there s a link?

Howard Chen

Great.

Joe Moglia

First, as consolidation goes, when the bubble burst in March 2000 it clearly created, over the span of the subsequent three years, excess capacity in the industry. Now, a key to being a successful online brokerage is you have got to be effective with regards to productivity, efficiency and scalability. The combination of both of those concepts means by definition, in business and economics, you have got to see consolidation. I believe that is not over yet and therefore it will continue. There has been significant consolidation the last three years; I think there will be consolidation going forward.

Now, in terms of sluggish trading activity and sluggish account opening as of the last couple of months, remember there has always been a correlation between trading activity and what was going on as far as account opening goes. And from everything that we can gather, the typical individual investor is a little bit nervous about what s going on with the price of oil, what s going on with regards to higher interest rates. While they may not understand the economic growth in general, they understand what is going on in the automobile sector, and that scares them. The surveys we do tells us they like real estate better than stock, and they have got 15% of their position in cash.

So right now, they are not enthusiastically, aggressively involved with the market. They are either on the sideline looking for an opportunity, or you are on the bearish side. All those things, I think, kind of come together.

Howard Chen

And then the final question was, have you disclosed whether this was the unanimous decision by Ameritrade s Board of Directors?

Joe Moglia

It was a unanimous decision, yes.

Howard Chen

Okay, great. Well, congratulations again, everybody.

Operator

Scott Patrick, Morgan Stanley.

Scott Patrick

Congratulations. Most of my questions have been answered. I guess what I just want to try to understand a little bit better is really the rationale for levering up to pay the special dividend, and then, in the wake of that, how you arrive at the $16 price for the tender.

Ed Clark

I think the reality is that this was a competitive process to make sure that we got the best deal for the Ameritrade shareholders, and out of that process you have a number of different levers that you can use that are good for the Ameritrade shareholders, and it ended up with a combination of upfront dividend and a tender price. Ameritrade shareholders were well-served by their bankers.

Scott Patrick

And I guess just on the pricing front, if you

Ed Clark

(Multiple speakers) well-served by my banker, too.

Scott Patrick

Just one other question on the pricing front. I know that you can t talk in great detail right now, but you have kind of talked more, I think, with the bias of raising price and having more customer segments to do business with from the Ameritrade standpoint, Joe. But I guess I m just trying to on the surface, I am trying to understand how you think about from a bigger-picture standpoint your typical customer, the 10.99 customer. Is that a customer that you think you can charge 17.95 for a broader service and still retain?

Joe Moglia

Yes. I think one thing I have not meant in the past I mean, when we did the Datek deal, we increased prices. But in the conversations that we have all had over the span of the last year or so, I have not meant to give the impression that I have got a bias one way or the other, specifically as far as pricing goes. In terms of what is going on now, what we want to try to do and what we will do is we will provide our clients with customization and choice. So for those clients that want a do-it-yourself, totally online experience, that potentially is one price. For the client that wants access to a branch or access to an advisor, that s potentially another price. And then there are different potential value propositions in between that, and that this what we will work hard on trying to get right. And as we have talked in the past, it s a perfect alignment and fit with what we re trying to do strategically. But we are not ready to go out with any of that yet.

Operator

David Chamberlain (ph), PIMCO (ph).

David Chamberlain

I m curious on when I look back at the Datek acquisition and the attrition you saw in terms of customers, what was the attrition you saw there? And what gives you confidence that you can kind of maintain most of the TD accounts?

Joe Moglia

Because our number-one priority is retention of our accounts. We have been successful doing that all along. We recognize that and shareholder value are the only reasons why we are in business, so it will be the absolute focus of us moving forward.

David Chamberlain

Can you just give me an idea of what the Datek retention was in that deal?

Joe Moglia

Yes. The total Datek attrition that took place was about 6% plus and the overall number that we had budgeted for it was 10%. In this case, we are assuming the regular attrition plus an incremental 5%. The Datek assumption was 10% total.

Appointing, compensating, retaining and overseeing the company s independent registered public accounting firm.

Reviewing the annual report of the company s independent registered public accounting firm related to quality control.

Reviewing the company 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 the company s audit plans.

Reviewing before issuance the company 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 the company 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 the company in accordance with Independence Standards Board Standard No. 1.

Reviewing and discussing the adequacy of the company s internal accounting controls and other factors affecting the integrity of the company s financial reports with management and with the company s independent registered public accounting firm.

Creating and periodically reviewing the company s whistleblower policy.

Reviewing the company 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 Mr. Adams as the audit committee financial expert as defined in the Securities Exchange Act of 1934.

The Audit Committee met 6 times in 2005. The committee also continued its long-standing practice of meeting directly with the company s internal audit staff to discuss the current year s audit plan and to allow for direct interaction between Audit Committee members and the company s internal auditors. See page 24 for a report of the committee.

Compensation Committee. All members of the Compensation Committee are independent. The Compensation Committee is generally 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 or grants under plans or as contributions or sales to any trustee of an 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 met 7 times in 2005. See page 18 for a report of the committee on its executive compensation decisions for the year 2005.

Governance and Stockholder Relations Committee. All members of the Governance and Stockholder Relations Committee are independent. The Governance and Stockholder Relations Committee is generally responsible for:

Making recommendations to the board regarding:

The development and revision of the company s 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 the company 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.

The Governance and Stockholder Relations Committee met 7 times in 2005. See below for a report of the committee regarding its activities. See also page 5 for a discussion of stockholder nominations and communications with the board.

CORPORATE GOVERNANCE

The board has a long-standing commitment to responsible and effective corporate governance. Information regarding the corporate governance practices of the board is available on the company s web site at www.ti.com/corporategovernance. The board acted on a number of important corporate governance matters during 2005 and early 2006. To provide details of those actions, the Governance and Stockholder Relations Committee offers the following report:

GOVERNANCE AND STOCKHOLDER RELATIONS COMMITTEE REPORT

Majority Voting

In 2005 and early 2006, the Governance and Stockholder Relations Committee of the board of directors (the Committee) spent significant time reviewing the company s director election process. In February 2006, the Committee recommended and the board determined to amend the company s by-laws to change the voting standard for the election of directors from a plurality to a majority vote. The board believes the change to a majority vote standard will appropriately give stockholders a greater voice in the election of directors of the company.

Under the plurality standard, which most companies incorporated in Delaware employ, director candidates with the most votes cast for them are elected, even if the total number of votes cast is less than a majority. Under the majority standard now applicable to the company s director elections, a director must receive the affirmative vote of a majority of the shares represented in person or by proxy at an annual meeting.

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. Consequently, the Committee is considering the adoption of a policy that would address this hold over issue. Because it is difficult to anticipate the various reasons stockholders might withhold votes from a director, the policy is likely to give the board flexibility in determining what action to take. The board agreed with the Committee s recommendation to amend the company s by-laws and acted accordingly. The amended by-laws can be found on the company s web site at www.ti.com/corporategovernance.

Governance at TI

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 the company and its stockholders, although some practices, such as maintaining a majority of independent directors, are of long standing. The 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 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. As illustrated in 2004, the board has also shown a willingness to change the status quo by revising the

size and composition of the board and the board s committee structure. Moreover, 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.

TI s corporate governance guidelines document several other principles the board has long followed. Following are examples of policies included in the guidelines:

The roles of chairman and chief executive officer. TI s 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 s simultaneously serving as chairman, depending on current and anticipated circumstances.

Retirement age and term limits. The 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 session 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 this Committee. This practice, by providing opportunities for leadership to more than one independent director, more fully engages the board members. The board prefers this approach to the selection of one lead director.

Director independence. TI s 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.

David R. Boren, Chair David R. Goode Christine Todd Whitman

Governance Documents

The board s corporate governance guidelines, the charters of the board s committees, the company s code of business conduct and the company s code of ethics for its chief executive officer and senior financial officers are available on the company s 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.

DIRECTOR COMPENSATION

Directors who are not employees are paid an annual retainer of $70,000 for their board and committee service. The chair of the Audit Committee receives an additional annual retainer of $10,000. The chairs of the Compensation Committee and the Governance and Stockholder Relations Committee each receive an additional annual retainer of $5,000. Compensation for other activities designated by the chairman of the board is $1,000 per day.

Under the terms of the Texas Instruments 2003 Director Compensation Plan (Director Plan), which was approved by stockholders in April 2003, non-employee directors receive the following additional compensation:

Stock Options. Non-employee directors are annually granted a 10-year option to purchase 15,000 shares of the company s common stock. The purchase price of the shares is 100% 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 the company.

Restricted Stock Units. New non-employee directors are granted 2,000 restricted stock units, each representing one share of company common stock. The restricted stock units provide for issuance of company common stock at the time of retirement from the board, or upon earlier termination of service from the board after completing eight years of service or because of death or disability. Dividend equivalents are paid on restricted stock units at the same rate as dividends on the company s common stock.

In 2005, the company s non-employee directors received the following compensation:

Director	Retainer	Stock Options (in Shares)	Restricted Stock Units (in Shares)	Fees for Designated Activities
J.R. Adams	$80,000	15,000	0	0
D.L. Boren	$75,000	15,000	0	0
D.A. Carp	$70,000	15,000	0	0
C.S. Cox	$70,000	15,000	0	0
G.W. Fronterhouse	$70,000	15,000	0	0
D.R. Goode	$70,000	15,000	0	0
P.H. Patsley	$70,000	15,000	0	0
W.R. Sanders	$75,000	15,000	0	0
R.J. Simmons	$70,000	15,000	0	0
C.T. Whitman	$70,000	15,000	0	0

In 2005, the company also made payments (an aggregate of $5,200) relating to premiums for life, medical, travel and accident insurance policies covering non-employee directors. The company does not pay its directors a fee for meeting attendance, but it does 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, subject to some limitations, directors can choose to have all or part of their cash compensation deferred until they leave the board (or certain other specified times). The deferred amounts are credited to either a cash account or stock unit account. Cash accounts earn interest from the company at a rate (currently based on published interest rates on certain corporate bonds) determined by the Governance and Stockholder Relations Committee. Stock unit accounts fluctuate in value with the underlying shares of company common stock, which will be issued after the deferral period.

TI has arrangements with certain customers whereby TI s employees may purchase specific products containing TI manufactured components at discounted pricing. Under these arrangements, directors are 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.

Each director whose service commenced prior to June 20, 2002, is eligible to participate in the company s Director Award Program. This program was established to promote the company s interest in supporting charitable institutions. Under the program, the company may contribute a total of $500,000 per eligible director to as many as three educational institutions recommended by the director and approved by the company. The contributions will be made in five annual installments of $100,000 each following the director s death. Directors receive no financial benefit from the program, and all charitable deductions belong to the company.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table shows the compensation of the company s chief executive officer and each of the four other most highly compensated executive officers for services in all capacities to the company in 2003, 2004 and 2005, except as otherwise indicated.

Annual Compensation	Long-Term Compensation	
	Awards	Payouts

	Annual Compensation				Long-Term Compensation			
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation (1)	Restricted Stock Awards (2)	Stock Options (in Shares) (3)	Long-Term Incentive Plan Payouts	All Other Compensation
.K. Templeton	2005	$866,250	$2,000,000	$82,273	$2,138,000	500,000	0	$123,871
resident & Chief	2004	$770,001	$1,400,000	$94,709	$3,248,000	700,000	0	$201,339
xecutive Officer	2003	$641,250	$ 600,000	$83,568	0	1,000,000	0	$ 85,345
. Delfassy	2005	$426,740	$ 950,000	$ 6,482	$1,069,000	100,000	0	$ 79,069
enior Vice	2004	$388,170	$ 600,000	$ 1,272	$1,624,000	150,000	0	$118,189
resident	2003	$364,070	$ 400,000	$ 1,172	0	300,000	0	$ 56,920
.J. Hames	2005	$417,920	$ 575,000	$ 1,278	$1,069,000	100,000	0	$ 43,685
enior Vice	2004	$393,289	$ 400,000	$ 0	$1,624,000	150,000	0	$ 67,336
resident	2003	$369,970	$ 300,000	$ 3,806	0	375,000	0	$ 18,279
.A. Lowe	2005	$405,041	$ 850,000	$ 1,219	$1,069,000	100,000	0	$ 44,520
enior Vice	2004	$346,040	$ 500,000	$ 3,935	$ 974,400	150,000	0	$ 66,190
resident	2003	$295,570	$ 300,000	$ 1,438	0	300,000	0	$ 4,020
.J. Ritchie (5)	2005	$396,740	$ 750,000	$ 0	$1,069,000	100,000	0	$ 40,346
enior Vice	2004	$355,000	$ 500,000	$ 0	$ 974,400	150,000	0	$ 66,135
resident								

(1) In the interest of transparency, the value of perquisites and other personal benefits is provided in this column and below in this note even if the amount is less than the reporting threshold established by the SEC.

The board of directors has determined that for security reasons, it is in the company s interest to require the chief executive officer to use company aircraft for personal air travel. The amount shown for Mr. Templeton includes $64,777 incremental cost of company-required personal use of aircraft and $7,517 for reimbursement of a portion of the tax related to the incremental cost of company-required personal use of aircraft. The amount shown for Mr. Templeton also includes the following:

Financial Counseling	Executive Physical	Home Security System Maintenance & Monitoring
$8,000	$1,254	$ 725

Other Annual Compensation of the other named executive officers in 2005 consists of the following:

Name	Financial Counseling	Executive Physical
G. Delfassy	$ 5,149	$ 1,333
M.J. Hames	0	$ 1,278
G.A. Lowe	$ 1,219	0
K.J. Ritchie	0	0

(2) As of December 31, 2005, the aggregate value of restricted stock unit holdings of the named executive officers was as follows:

Name	Aggregate Value* of Holdings	Number of Shares
R.K. Templeton	$ 10,262,400	320,000
G. Delfassy	$ 3,207,000	100,000
M.J. Hames	$ 6,414,000	200,000
G.A. Lowe	$ 6,574,350	205,000
K.J. Ritchie	$ 4,489,800	140,000

Dividend equivalents are paid on restricted stock units granted through 2005 at the same rate as dividends on the company s common stock. No dividend equivalents will be paid on restricted stock units granted on or after January 1, 2006.

*Calculated by multiplying the total number of restricted stock units held by the closing price of the company s stock on the last trading day of 2005 ($32.07).

(3) Any value actually realized by an executive officer from an option grant depends solely upon price increases in TI common stock.

(4) During 2005, the company made payments in connection with travel and accident insurance policies in the amount of $20 and insurance premium contributions in the amount of $250 for each of the executive officers named in the summary compensation table.

During 2005, the company made matching contributions to 401(k) accounts in the amount of $4,200 for Messrs. Hames, Lowe and Ritchie and $8,400 for Messrs. Templeton and Delfassy.

For 2005, the named executive officers received the following cash profit sharing payments: Mr. Templeton, $64,276; Mr. Delfassy, $31,664; Mr. Hames, $31,010; Mr. Lowe, $30,054; and Mr. Ritchie, $29,438.

During 2005, the company made contributions under its defined contribution retirement plan in the amount of $4,200 for Messrs. Templeton and Delfassy. The company accrued additional amounts of $46,725 and $21,935 for the benefit of Messrs. Templeton and Delfassy, respectively, to offset Internal Revenue Code limitations on amounts that could be contributed to the defined contribution retirement plan.

The following named executive officers received payments for unused vacation time that could not be carried forward: Mr. Delfassy, $12,600; Mr. Hames, $8,205; Mr. Lowe, $9,996; and Mr. Ritchie, $6,438.

(5) Mr. Ritchie became an executive officer of the company in 2004.

Table of Option Grants in 2005

The following table shows stock options granted to the named executive officers in 2005. Additionally, in accordance with the rules of the SEC, the table shows the hypothetical gains or option spreads that would exist for the options. These gains are based on assumed rates of annual compound stock appreciation of 5% and 10% from the date the options were granted over the full option term. The options have a 10-year term and generally become exercisable over the first four years of the term. Following termination of employment, an optionee generally has 30 days to exercise vested options unless the optionee has 20 years of service with TI or is otherwise retirement eligible, in which case the options continue to vest and are exercisable over their full term. Beginning with options granted

in February 2003, if an optionee terminates employment following 20 years of credited service but is not retirement eligible, the options continue to full term but only to the extent vested at the time of termination. The options become fully exercisable in the event of a change in control (as defined in the options) of the company. The exercise price may be paid by delivery of already-owned shares and tax withholding obligations related to exercise may be paid in shares.

					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (10 Years)			
					5%		10%	
Name	**Options Granted (in Shares) (1)**	**% Of Total Options Granted To Employees In 2005**	**Exercise Price (per Share)**	**Expiration Date**	**Stock Price (per Share)(2)**	**Gain**	**Stock Price (per Share)(2)**	**Gain**
R.K. Templeton	500,000	2.2%	$21.55	01/20/2015	$ 35.10	$6,775,000	$55.90	$17,175,000
G. Delfassy	100,000	0.40%	$21.55	01/20/2015	$ 35.10	$1,355,000	$55.90	$ 3,435,000
M.J. Hames	100,000	0.40%	$21.55	01/20/2015	$ 35.10	$1,355,000	$55.90	$ 3,435,000
G.A. Lowe	100,000	0.40%	$21.55	01/20/2015	$ 35.10	$1,355,000	$55.90	$ 3,435,000
K.J. Ritchie	100,000	0.40%	$21.55	01/20/2015	$ 35.10	$1,355,000	$55.90	$ 3,435,000

(1) These nonqualified options were granted under a stockholder-approved plan on January 20, 2005, and become exercisable in four equal annual installments beginning on January 20, 2006. Any value actually realized by an executive officer from an option grant depends solely upon price increases in TI common stock benefiting all stockholders.

(2) The price of TI common stock at the end of the 10-year term of the stock options granted on January 20, 2005, would be $35.10 at a 5% annual appreciation rate and $55.90 at a 10% annual appreciation rate.

Table of Option Exercises in 2005 and Year-End Option Values

The following table lists the number of shares acquired and the value realized as the result of option exercises in 2005 by the named executive officers. It also includes the number and value of the exercisable and unexercisable options as of December 31, 2005. The table contains values for in-the-money options, meaning those having a positive spread between the year-end share price of $32.07 and the exercise price.

			Number of Unexercised Options at December 31, 2005		Value of Unexercised In-the-Money Options at December 31, 2005	
Name	**Shares Acquired on Exercise**	**Value Realized**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
R.K. Templeton	0	$ 0	3,598,750	1,681,250	$35,627,988	$14,084,063

			Number of Unexercised Options at December 31, 2005		Value of Unexercised In-the-Money Options at December 31, 2005	
G. Delfassy	20,000	$ 158,200	817,500	462,500	$ 4,743,200	$ 4,116,500
M.J. Hames	280,000	$6,161,600	862,500	462,500	$ 4,965,525	$ 4,383,875
G.A. Lowe	230,000	$2,617,000	391,250	393,750	$ 1,367,088	$ 3,613,063
K.J. Ritchie	110,000	$2,160,700	463,850	376,250	$ 3,091,876	$ 3,334,463

Pension Plan Table

As required by SEC rules, the table below shows the approximate benefits relating to the company s pension plan and nonqualified supplemental pension plan that would be payable as of December 31, 2005, to employees in higher salary classifications for the average credited earnings and years of credited service indicated if they were paid as an annuity. It assumes retirement at age 65. Benefits are based on eligible earnings. Eligible earnings include salary and bonus as shown in the summary compensation table. Other elements of compensation shown in the summary compensation table or referred to in the footnotes to that table are not included in eligible earnings.

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Because the pension plan is a qualified plan, it is subject to various restrictions under the Internal Revenue Code (Code) and the Employee Retirement Income Security Act of 1974 (ERISA) with respect to benefit calculations and payments. ERISA and the Code limit the maximum annual benefit payable under a qualified plan such as the pension plan to $170,000. Further, the eligible earnings used to calculate benefits are capped by ERISA; in 2005, the cap was $210,000. To address these limitations, TI employees, including the named executive officers, are eligible for additional retirement benefits to be paid by the company under a nonqualified supplemental pension plan.

In 1997, the company s U.S. employees were given the option of continuing to participate in the pension plan or participating in a new defined contribution retirement plan. Mr. Templeton chose to participate in the new plan. Accordingly, his benefits under the pension plan (described in footnote 1 below) were frozen as of December 31, 1997. Contributions to the defined contribution retirement plan for Mr. Templeton s benefit are included in the summary compensation table. Mr. Delfassy transferred to the company s U.S. payroll in 1999 and participates in the defined contribution retirement plan. Contributions to the plan for Mr. Delfassy s benefit are included in the summary compensation table.

	Estimated Annual Benefits Under Pension Plan for Specified Years of Credited Service (2)(3)						
Average Credited Earnings (1)	**15 Years**	**20 Years**	**25 Years**	**30 Years**	**35 Years**	**40 Years**	**45 Years**
$ 500,000	107,387	143,183	178,978	214,774	250,569	288,069	325,569
$1,000,000	219,887	293,183	366,478	439,774	513,069	588,069	663,069
$1,500,000	332,387	443,183	553,978	664,774	775,569	888,069	1,000,569
$2,000,000	444,887	593,183	741,478	889,774	1,038,069	1,188,069	1,338,069
$2,500,000	557,387	743,183	928,978	1,114,774	1,300,569	1,488,069	1,675,569
$3,000,000	669,887	893,183	1,116,478	1,339,774	1,563,069	1,788,069	2,013,069

(1) The average credited earnings is the average of the five consecutive years of highest earnings. At December 31, 2005, the below named executive officers were credited with the following years of credited service and had the following average credited earnings:

Name	**Years of Service**	**Average Credited Earnings**
R.K. Templeton*	16	$ 536,761

Name	Years of Service	Average Credited Earnings
M.J. Hames	24	$ 691,760
G.A. Lowe	20	$ 554,750
K.J. Ritchie	26	$ 548,508

*As of December 31, 1997.

(2) If the amount otherwise payable under the pension plan should be restricted by the applicable provisions of ERISA, the amount in excess of ERISA s restrictions will be paid by the company.

(3) The benefits under the pension plan are computed as a single life annuity beginning at age 65. The amounts shown in the table reflect the offset provided in the pension plan under the pension formula adopted July 1, 1989, to comply with Social Security integration requirements. The integration offset is $5,113 for 15 years of credited service, $6,817 for 20 years of credited service, $8,522 for 25 years of credited service, $10,226 for 30 years of credited service, $11,931 for 35 years of credited service, $11,931 for 40 years of credited service and $11,931 for 45 years of credited service.

The following table provides an estimate of the lump sum benefit under each of the pension plan and the nonqualified supplemental pension plan that would be payable to the named executive officers based on a hypothetical retirement date of December 31, 2005. The lump sum represents the discounted net present value of the annual annuity payments to which the named executive officer

would otherwise be entitled, based on the named executive officer s actuarial life expectancy and the government discount rate in effect at the time.

Name	Pension Plan Estimated Lump Sum Payment	Nonqualified Supplemental Pension Plan Estimated Lump Sum Payment
R. K. Templeton*	$ 371,662	$ 274,633
M. J. Hames	$ 486,464	$ 784,681
G. A. Lowe	$ 349,915	$ 352,574
K.J. Ritchie	$ 578,694	$ 599,784

* Based on accrued pension benefit as of December 31, 1997.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the board of directors (the Committee) has furnished the following report on executive compensation paid or awarded to executive officers for 2005:

The Committee determines compensation for the executive officers of the company. The Committee consists solely of independent members of the board, meets on a scheduled basis and reports its activities to the board. A copy of the Committee s charter appears on the company s web site at www.ti.com/corporategovernance.

To assist it in administration of the company s executive compensation program, the Committee has authority to retain independent experts and advisors. In 2005, the Committee retained an independent consultant to advise it on market practices relating to compensation.

Compensation Strategy and Components

The goal of the company s executive compensation program is to attract, motivate and retain the executives who are critical to the company s success, while holding them accountable for their own and for the company s performance. The total value of compensation delivered to executive officers is highly variable, based on such performance. The components of compensation are designed to align executive interests with those of stockholders. Those components are as follows:

Cash Compensation

Cash compensation consists of two components: base salary and performance bonuses.

Base salary is primarily determined by competitive pay and individual job performance. The Committee s strategy is to target base salary generally at a level below the market median, in order to weight total compensation toward the performance-based components described below. Competitive pay practices are determined from the best available information (including compensation surveys, proxy-statement disclosures and the advice of the Committee s independent compensation consultant) about a group of comparator companies. All in this comparator group are high-technology companies, many of which are included in the S&P Information Technology Index. (See page 23 for a comparison of TI s stock performance with this Index.)

Performance bonuses are used to bring the executive officers total cash compensation to targeted levels. Total cash compensation is targeted at a level commensurate with the company s relative

performance versus its competitors, as well as the individual s contribution to that performance. In setting an executive officer s performance bonus, the Committee takes account of the amount paid to the officer under the Company s broad-based profit sharing program. (See Benefits below for a discussion of the profit sharing program.)

If the company performs better than competitor companies on identified performance measures, the Committee will generally target total cash compensation for executive officers that is higher than the market median. If the company s performance is below that of competitor companies, then total cash compensation will be targeted at below the market median.

The performance measures used by the Committee are described below under the heading Performance Measures and Decision-Making Process for 2005.

Long-Term Compensation

To promote retention and align executive officers interests more closely with those of stockholders, the Committee grants long-term equity compensation, generally consisting of a mix of stock options and restricted stock units. In determining long-term awards, the Committee considers the performance of the executive officer and the retention value of the long-term compensation that already has been granted to the individual, as well as the median number of shares and equity value granted by comparator companies to similarly situated executive officers.

Stock options are granted at 100 percent of fair market value on the date of grant, have a 10-year term, and become exercisable in four equal annual installments starting one year after grant. Any value actually realized by an executive officer from an option grant depends solely upon price increases in TI common stock benefiting all stockholders.

Restricted stock units are designated in shares of TI common stock and generally vest 4 years from the date of grant. Until vesting, the grantee receives an annual cash payment equivalent to the dividends paid on the number of shares under the grant. After vesting, the restricted stock units are paid to the grantee in shares of TI common stock.

In granting equity compensation, the Committee s goal is that net annual dilution from its equity compensation practices not exceed 2 percent. Net annual dilution means the number of shares under equity awards granted by the Committee each year to all employees (net of award forfeitures), as a percentage of the shares of the company s outstanding common stock. Equity awards granted by the Committee in 2005 resulted in net annual dilution of 1.1 percent.

Stock Ownership Guidelines

The company has stock ownership guidelines for executive officers. The guideline for the Chairman and the CEO is four times base salary or 125,000 shares, whichever is less. The guideline for other executive officers is three times base salary or 25,000 shares, whichever is less. Executive officers have five years from their election as executive officers to reach these targets.

Benefits

Reflecting the company s culture of respect and value for all employees, the benefits received by executive officers are the same as received by other employees except for those few benefits described below in the last paragraph of this section. For example, executive officers are eligible on the same basis as other U.S. employees for medical and life insurance, a pension plan, a 401(k) plan into which the company makes matching contributions, and an employee stock purchase plan that allows participants to purchase up to $25,000 of TI stock annually at a discount. Any U.S.

employee whose base salary exceeds a certain level (currently $130,000 per year) may defer compensation. All employees are eligible to participate in the company s broad-based profit sharing program. Under this program, cash payments are made to employees, including executive officers, if the company meets specified performance goals. Together with other U.S. employees, executive officers also participate in a nonqualified supplemental retirement plan, into which amounts are credited that ordinarily would be contributed by the company under the pension or 401(k) plans, but for limitations under the Internal Revenue Code. Upon retirement executive officers receive benefits, such as a pension and retiree medical benefits, under the same terms as other retirees.

The company does not offer post-employment benefits to executive officers except as described above. The company does not have employment agreements with any of the executive officers. The value of the executive officers 401(k) plan and deferred compensation plan balances depends solely on the performance of investment alternatives selected by the executive officer from among the alternatives offered to all participants. The company does not guarantee any minimum return on those investments.

The few benefits available only to executive officers are the following: financial planning advice at a cost of up to $8,000 annually for each executive officer; home-security systems for certain executive officers; and an executive life insurance policy for the Chairman that was issued under an old program that is closed to new participants. Together with other senior executives, the executive officers are eligible for a company-paid annual physical. The board of directors determined that for security reasons, it was in the company s interest to require the CEO to use company aircraft for personal air travel. The company reimburses the CEO for a portion of the tax expense that he incurs as a result of that requirement.

Section 162(m) of the Internal Revenue Code

Section 162(m) of the Internal Revenue Code generally denies a deduction to any publicly held corporation for compensation paid in a taxable year to the company s CEO and four other highest compensated officers to the extent that the officer s compensation (other than qualified performance-based compensation) exceeds $1 million. The Committee s policy is to award executive compensation that meets the Section 162(m) deductibility requirements, but the Committee exercises its discretion to award non-deductible compensation when it considers it in the best interests of the company and stockholders to do so.

Performance Measures and Decision-Making Process for 2005

The Committee set base salaries for executive officers for 2005 in January 2005, with payment beginning in February 2005. The Committee made bonus and long-term compensation awards in January 2006 based on 2005 performance.

The performance measures used by the Committee in determining executive compensation for 2005 were:

- the absolute one-year and multi-year company performance as measured by market share, revenue growth, profit from operations and total shareholder return;

one-year and multi-year performance on the same measures as compared with semiconductor competitors in the comparator group; and

the company s progress toward its strategic goals.

To make its decisions on executive compensation, the Committee reviewed in detail each of the performance measures above, reviewed compensation market data and received input on

competitive compensation practices from its independent compensation consultant. The Committee also reviewed the total compensation and benefits of the executive officers and considered the impact that their retirement, or termination under various other scenarios, would have on their compensation and benefits.

The CEO provided the entire board of directors with an assessment of his own performance with respect to the performance measures listed above, which the board considered in its assessment of his performance for 2005. The CEO reviewed the performance of the other executive officers (except the Chairman) with the Committee and made recommendations regarding the components of their compensation.

Before making its compensation decisions, the Committee discussed levels of compensation for the Chairman, the CEO and the other executive officers with the full board of directors in an executive session attended solely by the independent directors.

Determination of CEO Compensation

In 2005, TI reached record levels of revenue, profit from operations, operating margin and operating cash flow. TI s primary business, Semiconductor, grew revenue faster than most of the competitor companies, reaching record levels of market share in each of its key product categories of Analog and DSP.

Profit from operations increased more than $500 million in 2005. As a percent of revenue, profit from operations improved 3 percentage points over the prior year and reached new quarterly highs in the second half of the year.

Total shareholder return of more than 30 percent was significantly above median compared to the semiconductor competitor companies.

With regard to progress toward strategic goals, TI improved its product and technology positions with new industry-leading offerings and strengthened its relationships with customers as evidenced by the gains in market share. Further, TI again achieved a strong balance sheet, with total cash of more than $5 billion, while returning value to stockholders through a 20 percent increase in the dividend and the repurchase of more than $4 billion of common stock. The achievements of 2005 followed improvements in 2004, when the company increased its market share, improved profit from operations, and delivered total shareholder return in the top one-third of the semiconductor competitor companies.

Taking into account the company s performance, both absolute and relative to competition, and the executive officers contributions to that performance, the Committee set its targeted compensation levels so as to be commensurate with that relative performance. The Committee made the following determinations for 2005 with respect to each component of compensation for the CEO and the other executive officers:

Base Salary In keeping with its strategy, the Committee s base salary decisions for 2005 were generally intended to provide salaries somewhat lower than the median level of salaries for similarly situated executives of the comparator companies. Mr. Templeton s salary was set at $870,000, which was below the median annual salary of CEOs of the comparator companies.

Performance Bonus In general, the Committee granted annual performance awards such that total cash compensation would be above the median of the comparator companies. In doing so, the Committee took into account the amount paid to executive officers under the company s broad-based profit sharing program. As a result, Mr. Templeton received a cash performance bonus of $2 million, resulting in total cash compensation to Mr. Templeton above the median for chief executive officers of the comparator companies. The performance bonuses were paid under the Texas Instruments Executive Officer Performance Plan, which stockholders approved in April 2002.

Long-Term Compensation The Committee granted equity compensation, consisting generally of a mix of stock options and restricted stock units, to each of the executive officers. Considering Mr. Templeton s continuing contribution to the company s performance and execution of its strategic plan, the Committee granted Mr. Templeton stock options for 500,000 shares and 100,000 restricted stock units. The restricted stock units vest in four years. The awards were made under the Texas Instruments 2000 Long-Term Incentive Plan, which stockholders approved in April 2000. The awards for Mr. Templeton were set to create a total long-term compensation opportunity comparable to those of CEOs of the comparator companies. The value to be realized by Mr. Templeton and the other executive officers from their long-term compensation will depend solely on the long-term performance of the company.

Compensation of the Chairman

Because Mr. Engibous was not among the Company s five most highly compensated executive officers, SEC rules do not require disclosure of his compensation in the company s 2006 proxy statement. In the interest of transparency, the Committee provides the following information concerning his compensation for 2005. In January 2005, the Committee set Mr. Engibous s base salary for 2005 at $345,000. He was also granted a stock option for 270,000 shares under the Texas Instruments 2000 Long-Term Incentive Plan. In January 2006, the Committee awarded him a bonus of $600,000 for 2005 performance. In making these determinations, the Committee considered his role as Chairman, his contribution to the company s performance and strategic direction, and the compensation of employee-chairmen of comparator companies.

Wayne R. Sanders, Chair   Daniel A. Carp   Ruth J. Simmons

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COMPARISON OF TOTAL SHAREHOLDER RETURN

This graph compares TI s total shareholder return with the S&P 500 Index and the S&P Information Technology Index over a five-year period, beginning December 31, 2000, and ending December 31, 2005. The total shareholder return assumes $100 invested at the beginning of the period in TI common stock, the S&P 500 Index and the S&P Information Technology Index. It also assumes reinvestment of all dividends.

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AUDIT COMMITTEE REPORT

The Audit Committee of the board of directors has furnished the following report:

As noted in the committee s charter, the company s management is responsible for preparing the company s financial statements. The company s independent registered public accounting firm is responsible for auditing the financial statements. The activities of the committee are in no way designed to supersede or alter those traditional responsibilities. The committee s role does not provide any special assurances with regard to the company s financial statements, nor does it involve a professional evaluation of the quality of the audits performed by the independent registered public accounting firm.

The committee has reviewed and discussed with management and the independent accounting firm, as appropriate, (1) the audited financial statements and (2) management s report on internal control over financial reporting and the independent accounting firm s related opinions.

The committee has discussed with the independent registered public accounting firm, Ernst & Young, the matters required to be discussed by Statement of Auditing Standards No. 61, *Communication with Audit Committees*, as amended.

The committee has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, has considered the compatibility of non-audit services with the firm s independence, and has discussed with Ernst & Young the firm s independence.

Based on the review and discussions referred to above, the committee recommended to the board of directors that the audited financial statements be included in the company s Annual Report on Form 10-K for 2005 for filing with the SEC.

James R. Adams, Chair	Carrie S. Cox
Gerald W. Fronterhouse	Pamela H. Patsley

PROPOSAL TO RATIFY
APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the board has appointed Ernst & Young LLP to be the company s independent registered public accounting firm for 2006.

The board asks the stockholders to ratify the appointment of Ernst & Young. If the stockholders do not ratify the appointment, the Audit Committee will consider whether it should appoint another independent registered public accounting firm.

Representatives of Ernst & Young are expected to be present, and to be available to respond to appropriate questions, at the annual meeting. They have the opportunity to make a statement if they desire to do so; they have indicated that, as of this date, they do not.

The company has paid fees to Ernst & Young for the services described below:

Audit Fees. Ernst & Young s Audit Fees were $6,770,000 in 2005 and $6,903,000 in 2004. The services provided in exchange for these fees were our annual audit and review of interim financial statements, and the firm s opinions related to internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act.

Audit-Related Fees. In addition to the Audit Fees, the company paid Ernst & Young $1,997,000 in 2005 and $471,000 in 2004 for assurance and other services related to Ernst & Young s provision of annual audit services and review of interim financial statements. The services provided in exchange for these fees included employee benefit plan audits, agreed-upon procedures related to selected accounting processes at a TI subsidiary in 2004, access to Ernst & Young s online research tool, an environmental certification audit and in 2005, a separate audit in support of a transaction to divest substantially all of the company s Sensors & Controls segment. Of the total Audit-Related Fees in 2005, $1,489,000 was for this Sensors & Controls audit.

Tax Fees. Ernst & Young s fees for professional services rendered for tax compliance, tax advice and tax planning were $800,000 in 2005 and $1,251,000 in 2004. The services provided in exchange for these fees were preparation and review of non-U.S. tax returns, tax consultations and expatriate tax preparation.

All Other Fees. Ernst & Young s fees for all other professional services rendered were $30,000 in 2005 and $30,000 in 2004. The services provided in exchange for these fees were audit services for the TI Foundation.

Pre-approval Policy. The Audit Committee is required to pre-approve the audit and non-audit services to be performed by the independent registered public accounting firm in order to assure that the provision of such services does not impair the firm s independence.

Annually the independent registered public accounting firm and the Director of Internal Audits will present to the Audit Committee services expected to be performed by the firm over the next 12 months. The Audit Committee will review and, as it deems appropriate, pre-approve those services. The services and estimated fees are to be presented to the Audit Committee for consideration in the following categories: Audit, Audit-related, Tax and All Other (each as defined in Schedule 14A of the Securities Exchange Act of 1934). For each service listed in those categories, the Committee is to receive detailed documentation indicating the specific services to be provided. The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The Audit Committee will review on at least a quarterly basis the services provided to date by the firm and the fees incurred for those services. The Audit Committee may also revise the list of pre-approved services and related fees from time to time, based on subsequent determinations.

In order to respond to time-sensitive requests for services that may arise between regularly scheduled meetings of the Audit Committee, the Committee has delegated pre-approval authority to its Chair (the Audit Committee does not delegate to management its responsibilities to pre-approve services). The Chair is to report pre-approval decisions to the Audit Committee and seek ratification of such decisions at the Audit Committee s next scheduled meeting.

The board of directors recommends a vote FOR ratification of the appointment of Ernst & Young LLP as the company s independent registered public accounting firm for 2006.

ADDITIONAL INFORMATION

Voting Securities

As of February 21, 2006, 1,587,019,896 shares of the company s common stock were outstanding. This is the only class of capital stock entitled to vote at the meeting. Each holder of common stock has one vote for each share held. As stated in the notice of meeting, holders of record of the common stock at the close of business on February 21, 2006, may vote at the meeting or any adjournment of the meeting.

Share Ownership of Certain Persons

The following table shows (a) the only person that has reported beneficial ownership of more than 5% of the common stock of the company, and (b) the ownership of the company s common stock by the named executive officers, and all executive officers and directors as a group. Persons generally beneficially own shares if they have either the right to vote those shares or dispose of them. More than one person may be considered to beneficially own the same shares.

Name and Address	Shares Owned at December 31, 2005	Percent of Class
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	126,398,920(1)	7.8%
Richard K. Templeton	4,637,808(2)	*
Gilles Delfassy	1,112,115(2)	*
Michael J. Hames	1,328,786(2)	*
Gregg A. Lowe	771,514(2)	*
Kevin J. Ritchie	778,361(2)	*
All executive officers and directors as a group	19,637,230(3)	1.23%

* Less than 1%

(1) The company understands that, as of December 31, 2005, Capital Research and Management Company had sole dispositive power with respect to all of the above shares and sole voting power with respect to 29,660,200 of the above shares.

(2) Included in shares owned at December 31, 2005:

Executive Officer	Shares Obtainable Within 60 Days	Shares Credited to 401(k) and Profit Sharing Accounts	Restricted Stock Units (in Shares)

R.K. Templeton	4,305,190	11,009	320,000
G. Delfassy	1,005,190	1,704	100,000
M.J. Hames	1,081,250	6,906	200,000
G.A. Lowe	560,190	3,428	205,000
K.J. Ritchie	623,850	7,728	140,000

Excludes shares held by a family member if a director or executive officer has disclaimed beneficial ownership.

(3) Includes:

(a) 17,422,180 shares obtainable within 60 days;

(b) 155,707 shares credited to 401(k) and profit sharing stock accounts;

(c) 1,525,268 shares subject to restricted stock unit awards; the non-employee directors restricted stock units are settled in TI stock upon a 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; and

(d) 72,826 shares credited to certain non-employee directors deferred compensation accounts; shares in deferred compensation accounts are issued following a director s termination of service.

Excludes shares held by a family member if a director or executive officer has disclaimed beneficial ownership.

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Certain Business Relationships

Joseph F. Hubach, senior vice president, secretary and general counsel of the company, is the brother of Francis P. Hubach, Jr., partner in charge of the Dallas office of the law firm of Jones Day. The company, whose relationship with Jones Day began before Mr. J. Hubach joined the company, engaged the services of Jones Day during 2005. Mr. F. Hubach provides no services to the company.

Cost of Solicitation

The solicitation is made on behalf of the board of directors of the company. The company will pay the cost of soliciting these proxies. We will reimburse brokerage houses and other custodians, nominees and fiduciaries for reasonable expenses they incur in sending these proxy materials to you if you are a beneficial holder of our shares.

Without receiving additional compensation, officials and regular employees of the company may solicit proxies personally, by telephone, fax or e-mail from some stockholders if proxies are not promptly received. We have also hired Georgeson Shareholder Communications Inc. to assist in the solicitation of proxies at a cost of $12,000 plus out-of-pocket expenses.

Proposals of Stockholders

If you wish to submit a proposal for possible inclusion in the company s 2006 proxy material, we must receive your notice, in accordance with rules of the SEC, on or before November 9, 2006. Proposals are to be sent to: Texas Instruments Incorporated, 12500 TI Boulevard, MS 8658, Dallas, Texas, 75243, Attn: Secretary.

If you wish to submit a proposal at the 2007 annual meeting (but not seek inclusion of the proposal in the company s proxy material), we must receive your notice, in accordance with the company s by-laws, on or before January 20, 2007.

All suggestions from stockholders concerning the company s business are welcome and will be carefully considered by the company s management. To ensure that your suggestions receive appropriate review, the Governance and Stockholder Relations Committee from time to time reviews correspondence from stockholders and management s responses. Stockholders are thereby given access at the board level without having to resort to formal stockholder proposals. Generally, the board prefers you present your views in this manner rather than through the process of formal stockholder proposals. Please see page 5 for information on contacting the board.

Quorum Requirement

A quorum of stockholders is necessary to hold a valid meeting. If at least a majority of the shares of TI stock issued and outstanding and entitled to vote are present in person or by proxy, a quorum will exist.

Vote Required

For all matters submitted at the meeting, including the election of directors, an affirmative vote of the majority of the shares present in person or by proxy and entitled to vote thereon is necessary for approval.

We do not expect any matters to be presented for a vote at the annual meeting other than the election of directors and the proposal to ratify the appointment of the company s independent registered public accounting firm for 2006. If you grant a proxy, the persons named in the proxy will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting.

Under Delaware law and the company s Restated Certificate of Incorporation and by-laws, the aggregate number of votes entitled to be cast by all stockholders present in person or represented by proxy at the meeting, whether those stockholders vote FOR or AGAINST (including WITHHOLD AUTHORITY votes in the election of directors) or abstain from voting, will be counted for purposes of determining the minimum number of affirmative votes required for approval of such matters. The total number of votes cast FOR each of these matters will be counted for purposes of determining whether sufficient affirmative votes have been cast. An abstention from voting on a matter by a stockholder present in person or represented by proxy at the meeting has the same legal effect as a vote AGAINST the matter even though the stockholder or interested parties analyzing the results of the voting may interpret such a vote differently. TI has appointed independent inspectors of election to tabulate the voting for the meeting.

Benefit Plan Voting

If you are a participant in the TI Contribution and 401(k) Savings Plan, or the TI 401(k) Savings Plan, you are a named fiduciary under the plans and are entitled to direct the voting of shares allocable to your accounts under these plans. The trustee administering your plan will vote your shares in accordance with your instructions. If you wish to instruct the trustee on the voting of shares held for your accounts, you should do so by April 17, 2006, in the manner described in the notice of meeting.

Additionally, participants under the plans are designated as named fiduciaries for the purpose of voting TI stock held under the plans for which no voting direction is received. TI shares held by the TI 401(k) savings plans for which no voting instructions are received by April 17, 2006, will be voted in the same proportions as the shares in the plans for which voting instructions have been received by that date.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires certain persons, including the company s directors and executive officers, to file reports with the SEC regarding beneficial ownership of certain equity securities of the company. During 2005, all Section 16(a) reports were timely filed.

Telephone and Internet Voting

Registered Stockholders and Benefit Plan Participants. Stockholders with shares registered directly with Computershare (the company s transfer agent) and participants who beneficially own shares in a company benefit plan may vote telephonically by calling (800) 690-6903 (within the U.S. and Canada only, toll-free) or via the Internet at www.proxyvote.com.

The telephone and Internet voting procedures are designed to authenticate stockholders identities, to allow stockholders to give their voting instructions and to confirm that stockholders instructions have been recorded properly. The company has been advised by counsel that the telephone and Internet voting procedures, which have been made available through ADP Investor Communication Services, are consistent with the requirements of applicable law.

Stockholders with Shares Registered in the Name of a Brokerage Firm or Bank. A number of brokerage firms and banks offer telephone and Internet voting options. These programs may differ from the program provided to registered stockholders and benefit plan participants. Check the information forwarded by your bank, broker or other holder of record to see which options are available to you.

Stockholders voting via the Internet should understand that there may be costs associated with electronic access, such as usage charges from telephone companies and Internet access providers, that must be borne by the stockholder.

Stockholders Sharing the Same Address

To reduce the expenses of delivering duplicate proxy materials, we are taking advantage of the SEC s householding rules that permit us to deliver only one set of proxy materials to stockholders who share an address unless otherwise requested. If you share an address with another stockholder and have received only one set of proxy materials, you may request a separate copy of these materials at no cost to you by calling Investor Relations at (972) 995-3773 or by writing to Texas Instruments Incorporated, P.O. Box 660199, MS 8657, Dallas, TX 75266-0199, Attn: Investor Relations. For future annual meetings, you may request separate voting materials, or request that we send only one set of proxy materials to you if you are receiving multiple copies, by calling (800) 542-1061 or writing to Investor Relations at the address given above.

Electronic Delivery of Proxy Materials

As an alternative to receiving printed copies of these materials in future years, we are pleased to offer stockholders the opportunity to receive proxy mailings electronically. To request electronic delivery, please vote via the Internet at www.proxyvote.com and, when prompted, enroll to receive or access proxy materials electronically in future years.

After the meeting date, stockholders holding shares through a broker or bank may request electronic delivery by visiting www.icsdelivery.com/ti and entering information for each account held by a bank or broker. If you are a registered stockholder and would like to enroll, please visit www.computershare.com/us/sc/txnb or call TI Investor Relations at (972) 995-3773 for more information. If you are a participant in a TI benefit plan and would like to enroll, please call TI Investor Relations for more information.

Sincerely,

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

Dallas, Texas
March 9, 2006

DIRECTIONS AND OTHER ANNUAL MEETING INFORMATION

Directions

From DFW Airport: Take the North Airport exit to IH-635E. Take IH-635E to the Greenville Avenue exit. Turn right (South) on Greenville. Turn right (West) on Forest Lane. Texas Instruments will be on your right at the second traffic light. Please use the North entrance to the building.

From Love Field Airport: Take Mockingbird Lane East to US-75N (Central Expressway). Travel North on 75N to the Forest Lane exit. Turn right (East) on Forest Lane. You will pass two traffic lights. At the third light, the entrance to Texas Instruments will be on your left. Please use the North entrance to the building.

Parking

There will be reserved parking for all visitors at the North Lobby. Visitors with special needs requiring assistance will be accommodated at the South Lobby entrance.

Security

Please be advised that TI s security policy forbids weapons, cameras and audio/video recording devices inside TI buildings. All bags will be subject to search upon entry into the building.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
APRIL 20, 2006

You are cordially invited to attend the 2006 annual meeting of stockholders on Thursday, April 20, 2006, at the cafeteria on our property at 12500 TI Boulevard, Dallas, Texas, at 10:00 a.m. (Dallas time). At the meeting, we will consider the election of directors, the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for 2006 and such other matters as may properly come before the meeting.

Electronic Delivery of Proxy Materials

We are pleased to offer stockholders the opportunity to receive future proxy mailings by e-mail. To request electronic delivery, please vote via the Internet at www.proxyvote.com and, when prompted, enroll to receive proxy materials electronically in future years.

PROXY FOR ANNUAL MEETING TO BE HELD APRIL 20, 2006

This proxy is solicited on behalf of the Board of Directors.

The undersigned hereby appoints JAMES R. ADAMS, DAVID L. BOREN, THOMAS J. ENGIBOUS, WAYNE R. SANDERS, or any one or more of them, the true and lawful attorneys of the undersigned with power of substitution, to vote as proxies for the undersigned at the annual meeting of stockholders of Texas Instruments Incorporated to be held in Dallas, Texas, on April 20, 2006, at 10:00 a.m. (Dallas time) and at any or all adjournments thereof, according to the number of shares of common stock that the undersigned would be entitled to vote if then personally present, in the election of directors and upon the board proposal and other matters properly coming before the meeting. **If no contrary indication is made, this proxy will be voted FOR the election of each director nominee and the board proposal**. If other matters come before the meeting, this proxy will be voted in the discretion of the named proxies.

Should you have an account in the TI Contribution and 401(k) Savings Plan or the TI 401(k) Savings Plan, this proxy represents the number of TI shares allocable to that plan account as well as other shares registered in your name. As a named fiduciary under the plans for TI shares allocable to that plan account and for shares for which no voting instructions are received, this proxy will serve as voting instructions for The Northern Trust Company, trustee for the TI 401(k) Plans, or its designee. The plans provide that the trustee will vote each participant's shares in accordance with the participant's instructions. If the trustee does not receive voting instructions for TI shares under the plans by April 17, 2006, those shares will be voted, in accordance with the terms of the plans, in the same proportion as the shares for which voting instructions have been received. If other matters come before the meeting, the named proxies will vote plan shares on those matters in their discretion.

IMPORTANT On the reverse side of this card are procedures on how to vote the shares.

Please consider voting by Internet or telephone.

ATTN: JANE NAHRA
7839 CHURCHILL WAY
MS 3999
DALLAS, TX 75251

For registered shares, your proxy must be received by 11:59 P.M. (Eastern Daylight Time) on *April 19, 2006*.

For shares allocable to a benefit plan account, your proxy must be received by 11:59 P.M. (Eastern Daylight Time) on *April 17, 2006*.

VOTE BY INTERNET -www.proxyvote.com

Use the Internet to transmit your voting instructions and to view the proxy materials electronically. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Texas Instruments Incorporated, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN	TEXAS1	KEEP THIS PORTION FOR YOUR RECORDS
BLUE OR BLACK INK AS FOLLOWS:		DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

TEXAS INSTRUMENTS INCORPORATED

The board of directors of Texas Instruments Incorporated recommends a vote FOR the election of directors and the board proposal.

Election of Directors

1. Election of Directors - *Nominees:*
01) J.R. Adams, 02) D.L. Boren, 03) D.A. Carp, 04) C.S. Cox, 05) T.J. Engibous, 06) G.W. Fronterhouse, 07) D.R. Goode, 08) P.H. Patsley, 09) W.R. Sanders, 10) R.J. Simmons, 11) R.K. Templeton, 12) C.T. Whitman

For All	**Withhold All**	**For All Except**
¨	¨	¨

To vote against all nominees, mark Withhold All . To vote against any individual nominee(s), mark For All Except and write the nominee s number on the line below.

Vote on Proposal

2. Board proposal to ratify the appointment of Ernst &Young LLP as the Company s independent registered public accounting firm for 2006.

For	**Against**	**Abstain**
¨	¨	¨

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

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TEXAS INSTRUMENTS INCORPORATED

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

April 20, 2006

You are cordially invited to attend the 2006 annual meeting of stockholders on Thursday, April 20, 2006, at the cafeteria on our property at 12500 TI Boulevard, Dallas, Texas, at 10:00 a.m. (Dallas time). At the meeting, we will consider the election of directors, a board proposal to ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for 2006 and such other matters as may properly come before the meeting.

You are enrolled to receive stockholder communications on the Internet.
This e-mail contains instructions for accessing TI s 2006 Proxy Statement and Annual Report for 2005 and for voting your shares. Please read the instructions carefully before proceeding.

VOTING YOUR SHARES AND VIEWING THE PROXY MATERIALS- Please review the Proxy Statement and Annual Report before voting. The Proxy Statement discusses the proposal to be voted on.

You can enter your voting instructions and view the shareholder material at the following Internet site. If your browser supports secure transactions you will be automatically directed to a secure site.

http://www.proxyvote.com/0012345678901

Registered shares must be voted by 11:59 p.m. (Eastern Daylight Time) on April 19, 2006. Shares allocable to a TI benefit plan must be voted by 11:59 p.m. (Eastern Daylight Time) on April 17, 2006.

To enter your vote you will need the following:
CONTROL NUMBER: 012345678901
YOUR 4-DIGIT PIN NUMBER

If you are a TI employee-stockholder, your PIN is the last 4 digits of your Social Security Number (unless you have taken steps to change your PIN). For other stockholders, your PIN is the 4-digit PIN you enrolled with at the time you elected to receive electronic delivery (unless you have taken steps to change your PIN).

If you would like to cancel your enrollment, or change your e-mail address or PIN, please go to http://www.InvestorDelivery.com. You will need the enrollment number below, and your four-digit PIN. If you have forgotten your PIN, you can have it sent to your enrolled e-mail address by going to http://www.InvestorDelivery.com

Your InvestorDelivery Enrollment Number is: M012345678901

This e-mail covers TI shares registered directly in your name and TI shares allocable to employee benefit plan(s). If you receive more than one e-mail or a proxy card in addition to this e-mail, it generally means that your holdings include other names or different spellings of your name, and you must vote under all e-mails and any proxy cards to vote all shares.

You may also view the proxy materials at:
http://www.ti.com/corp/docs/investor/reportsproxiesfilings.shtml

To view the proxy materials, you may need Adobe Acrobat Reader, which is available at the following Internet site:
http://www.adobe.com/products/acrobat/readstep2.html

There are no charges for any of the services referenced herein. There may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that must be borne by the stockholder.

PAPER COPIES You may receive paper copies of the Proxy Statement and Annual Report by calling Investor Relations at (972) 995-3773 or by writing to Texas Instruments Incorporated, P.O. Box 660199, MS 8657, Dallas, TX 75266-0199, Attn: Investor Relations.

Dear Texas Instruments Stockholder:

You are enrolled to view the Texas Instruments 2006 Proxy Statement and the 2005 Annual Report (which includes the 2005 audited financial statements) over the Internet instead of receiving copies in the mail. You can now access these materials over the Internet at the following address:

http://www.ti.com/corp/docs/investor/arprox06.shtml

You can also view the Proxy Statement and Annual Report, vote your shares and enroll to receive these materials electronically in future years, at the following address:

http://www.proxyvote.com

You may vote over the Internet, by telephone or by returning a properly executed proxy card. See the Proxy Statement and the enclosed proxy card for additional information about the voting procedures.

You may receive paper copies of the 2006 Proxy Statement and 2005 Annual Report by calling Texas Instruments Investor Relations at (972) 995-3773 or by writing to Texas Instruments Investor Relations, P.O. Box 660199, MS 8657, Dallas, TX 75266-0199.

ProxyVote®

March 9, 2006
Meeting Materials

TEXAS INSTRUMENTS INCORPORATED
Annual Meeting

ANNUAL REPORT
PROXY STATEMENT

Meeting Date : 04/20/2006 for holders as of 02/21/2006

CUSIP: 882508-104 **Your Control Number :** 0000 0000 0000

As your vote is very important, we recommend that all voting instructions be received at least one business day prior to the voting cut-off time stated in the information circular. Scroll down for proxy instructions and voting.

6 **Scroll down for proxy instructions and voting.**

The undersigned hereby appoints JAMES R. ADAMS, DAVID L. BOREN, THOMAS J. ENGIBOUS, WAYNE R. SANDERS, or any one or more of them, the true and lawful attorneys of the undersigned with power of substitution, to vote as proxies for the undersigned at the annual meeting of stockholders of Texas Instruments Incorporated to be held in Dallas, Texas, on April 20, 2006, at 10:00 a.m. (Dallas time) and at any or all adjournments thereof, according to the number of shares of common stock that the undersigned would be entitled to vote if then personally present, in the election of directors and upon the board proposal and other matters properly coming before the meeting. **If no contrary indication is made, this proxy and will be voted FOR the election of each director nominee and the board proposal.** If other matters come before the meeting, this proxy will be voted in the discretion of the named proxies.

Should you have an account in the TI Contribution and 401(k) Savings Plan or the TI 401(k) Savings Plan, this proxy represents the number of TI shares allocable to that plan account as well as other shares registered in your name. As a "named fiduciary" under the plans for TI shares allocable to that plan account and for shares for which no voting instructions are received, this proxy will serve as voting instructions for The Northern Trust Company, trustee for the TI 401(k) Plans, or its designee. The plans provide that the trustee will vote each participant's shares in accordance with the participant's instructions. If the trustee does not receive voting instructions for TI shares under the plans by April 17, 2006, those shares will be voted, in accordance with the terms of the plans, in the same proportion as the shares for which voting instructions have been received. If other matters come before the meeting, the named proxies will vote plan shares on those matters in their discretion.

Directors Recommendations:
Choose this if you would like to vote your shares following directors recommendations. See below or refer to the proxy statement for the detailed recommendations. Please read them carefully.

Vote

Proxy Ballot:

01 DIRECTOR(S):

4 Directors recommend a vote **FOR** election of the following nominee(s):

J.R. ADAMS ; D.L. BOREN ; D.A. CARP ;

C.S. COX ; T.J. ENGIBOUS ; G.W. FRONTERHOUSE ;

D.R. GOODE ; P.H. PATSLEY ; W.R. SANDERS ;

R.J. SIMMONS ; R.K. TEMPLETON ; C.T. WHITMAN

For all nominees	Withhold all nominees	For all EXCEPT those selected below:

J.R. ADAMS

D.L. BOREN

D.A. CARP

C.S. COX

T.J. ENGIBOUS

G.W. FRONTERHOUSE

D.R. GOODE

P.H. PATSLEY

W.R. SANDERS

R.J. SIMMONS

R.K. TEMPLETON

C.T. WHITMAN

Proxy Vote.com

Page 2 of 2

02 BOARD PROPOSAL TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2006.

4 Directors Recommend : **FOR**

FOR Against Abstain

Vote my shares per the above selections

Click to see: Letter to our clients regarding voting authority

Back to top