

EXAR Strength, OIIM Weakness, AMD CEO

Exar (EXAR, \$8.57 +0.22, *Rated Long—But Upside Incremental in my latest Chip Investment Ideas*)

F2Q Strength: EXAR preannounced expected September-ended F2Q upside late-yesterday, with revenue ‘at or above the high-end of the range.’ Original guidance called for \$40-43M in sales reflecting sequential growth of +30+40% that included the first full quarter contribution from the acquisition of iML. Earnings on November 5.

Good news for EXAR after the unexpected acquisition and then somewhat disappointing guidance for F2Q, both of which resulted in recent share price weakness. Nevertheless, I think such weakness opens up an opportunity as this accretive deal adds half-again as much revenue along with consumer market diversification.

Advanced Micro Devices (AMD, \$3.28 +0.00, *Rated Long—But Distressed in my latest Chip Investment Ideas*)

New CEO: COO Lisa Su was named CEO and the current CEO Rory Read will assist in the transition until he departs at year-end. I agree its good news as part of the plan grooming her for the role over the last couple of years; her expected contribution to Phase III of the company’s transformation; and the urgency to move ahead.

I also think there were reasons for management to not better respond to repeated questions asking ‘Why now, 8-days before earnings and Rory’s somewhat short tenure as CEO?’ I think that restraint was appropriate to declare accelerated success (at least for Rory’s contribution) to answer the short-tenure question due to the work still required at the company; and the reason to announce before next week’s earnings would be to not distract from reported financials. However, even making that statement could easily be interpreted as signaling good news ahead—an obvious no-no in the world of Reg FD. But hey: interpreting conspiracy theories is part of the analyst’s role. I remain bullish on the company’s outlook and potential for significant upside potential.

O2Micro International (OIIM, \$2.35 -0.32, *Rated Long—But Distressed in my latest Chip Investment Ideas*)

3Q Weakness: OIIM preannounced expected 3Q weakness shortly before the markets opened early yesterday due to notebook PC markets and a charger IC product issue that has since been resolved. Expected quarterly revenue of \$15M will be down by -13.8% sequentially compared to original guidance calling for a flat -5% to +5%. Results are scheduled to be released during the morning of October 30.

Bad news for this fables supplier of LED drivers and power management ICs, as reflected in yesterday’s share price action. While the shares are notably attractive based on valuation fundamentals, restructuring to support cash break-even in the low-\$20M range of quarterly revenue is not getting any closer and management’s ‘consideration’ of expense reductions was qualified not to interfere with investments for future growth as part of the announcement. I remain bullish on this value-play ahead of a turn-around; although the potential recovery keeps getting delayed and I would be more encouraged if that ‘consideration’ were more of a ‘commitment.’

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