

## Intel Record 3Q Growth Followed By Seasonal 4Q Strength Operational Execution Tops Recovering Markets—Raising Est, Reit Hold

Diluted Shares(mil) :	5,616	Closing Price 10/13/09	fye Dec	2008	2009	2010	2011
Market Cap(\$mil) :	\$115,072	\$20.49	Revenue(\$mil)	\$37,586	\$34,758	\$40,565	\$44,637
Avg Volume(,000) :	60,599		EPS	\$0.92	\$1.07	\$1.47	\$1.66
Net Cash/Share:	\$2.69	Recommendation/Target	Price/Sales	3.1	3.3	2.8	2.6
Quarter Dividend:	\$0.14	Hold/\$24 from \$22.	Price/EPS	22.3	19.1	13.9	12.3

Intel is the world's largest semiconductor manufacturer and supplies microprocessors and chipsets to PC and server markets. It also supplies NAND and NOR flash memories through joint-ventures, and is expanding into netbook, handheld and embedded markets.

**Summary:** INTC posted its highest 3Q revenue growth in over 30 years and guided for a seasonally strong 4Q on consumer PC market health across all geographies. Earnings further exceeded expectations on gross margin strength due to manufacturing cost savings associated with the roll-out of its next-generation 32nm process technology. I am raising my estimates and target price, but continue to recommend the shares as a Hold due to limited potential upside and macroeconomic uncertainty. My revised 12-month target price of \$24 based on newly-introduced 2011 estimates.

**3Q09 Review:** 3Q revenue growth of 17% was the strongest in over 30 years and exceeded the high-end of guidance, but not the high-end of published expectations. EPS of \$0.33 also exceed expectations on gross margin strength, but not the high-end of published expectations. Gross margin of 57.6% improved by 680 basis points sequentially and was 460bps higher than the mid-point of revised guidance. The sequential 680bps was due to: a 500bps benefit from higher volume and lower costs of processors; a 500bps benefit from lower excess capacity and 32nm start-up costs; a 100bps benefit from lower chipset costs; a 300bps charge due to 32nm pre-production inventory write-offs; and a 100bps charge due to lower processor ASPs. The incremental 460bps to expectations was due to: a 200bps benefit from processor volume and costs; a 200bps benefit from lower excess capacity and start-up costs; and a 50bps benefit from chipset costs. Inventory declined by \$315M, cash flow from operations was \$4B, the company issued \$2B of convertible debt, paid the \$1.4B EC fine, repurchased \$1.7B shares, paid \$771M in dividends, bought Wind River and spent \$944M on cap ex. Net employee headcount grew by 266 due to 1,600 additions from the Wind River acquisition that accounted for \$36M of sales and \$11M amortization of intangibles.

FYE December in millions	3Q09					
	Estimate	Actual	EPS Impact	Guidance	Consensus	Range
Revenue	\$9,100	\$9,389	\$0.02	\$8,800-9,200	\$9,040	\$8,800-9,500
Revenue Growth	13.4%	17.0%				
Gross Margin	54.0%	57.6%	\$0.05	53%-55%		
R&D + MG&A	\$2,810	\$2,750	\$0.01	\$2,800		
Restruct/Impairment	\$80	\$75		\$80		
Equity/Interest/Other	(\$80)	(\$47)		(\$80)		
Tax Rate	23.0%	26.7%	(\$0.01)	23.0%		
Diluted Shares	5,675	5,616				
Diluted EPS	\$0.26	\$0.33	\$0.07		\$0.28	\$0.24-\$0.35

**Market Recovery/Operational Gains:** Consumer market strength reported across all geographies and notebook growth exceeded netbook/Atom growth. Sales were led by Asia-Pacific (especially China) at 56.7% of sales up by 20.7% and Japan at 9.8% up by 20%, with North America at 19.4% of sales with growth of 7.3% as healthy back-to-school sales were augmented by inventory builds expecting seasonal 4Q strength. Europe was seasonal. Digital Enterprise (desktops, servers, workstations) accounted for 52% of sales and grew by 14% with chipsets up by 17%, processors up by 13%, and operating margin of 30.8% up from 21.2%. Mobility (notebooks and netbooks) accounted for 44% of sales and grew by 19% with chipsets up by 30%, processors up by 15%, and operating margin of 32.7% up from 23.1%. Chipset sales tend to lead processor sales. Atom processors and chipsets for netbooks grew by 15% to \$415M. Channel inventory levels remain below normal and OEM inventories approximate half of last year's peak due to hub adoption.

Manufacturing execution was exemplified by declining inventory, increased throughput/cycle times and yields, improved equipment re-use, and greater than expected cost savings. MPU and chipset unit shipments set a record and MPU ASPs were down slightly—even excluding Atom sales. Nehalem-class product was strong in the server

business despite general enterprise weakness. Intel has shipped over 200M units of 45nm product to-date, and is now rolling out its new higher performance, lower power, and lower cost 32nm technology across its entire product line—as well as new offerings for new growth opportunities.

**Management Guidance:** 4Q guidance calls for: revenue at \$10.1B +/- \$400M (or up by a seasonally normal 3.3%-11.8%); gross margin of 62% +/-3 points; R&D and SG&A of \$2.9B; restructuring charges of \$40M; amortization of \$20M; net interest and other at zero; tax rate 26%; depreciation of \$1.2B; and cap ex for the year at \$4.5B +/- \$100M, down from \$4.7B +/- \$200M. The 4Q gross margin improvement of 500 basis points is due to: 300bps from the sale of previously written off inventory and the sale of qualified 32nm product; 100bps from higher microprocessor volume; and 100bps from lower excess capacity charges. Excess capacity charges will cease later this quarter. Modest inventory growth is expected this quarter to facilitate the 32nm transition, spending is expected to improve as a percent of revenue now that the cuts are complete, and long-term gross margins remain 50-60%.

**Raising Estimates:** My revised estimates are consistent with guidance and assume a return to normal seasonal quarterly revenue patterns over the next couple years—despite my discomfort associated with the current macroeconomic climate. I consider my revised estimates to be toward the higher-end of possible outcomes.

<i>in millions</i>	4Q09		2009		2010		2011
	Previous	Update	Previous	Update	Previous	Update	New
Revenue	\$9,828	\$10,200	\$34,097	\$34,758	\$39,086	\$40,565	\$44,637
Revenue Growth	8.0%	8.6%	-9.3%	-7.5%	14.6%	16.7%	10.0%
Gross Margin	57.0%	62.0%	52.4%	54.9%	53.7%	57.6%	57.6%
R&D + MG&A	\$2,935	\$2,899	\$10,816	\$10,719	\$12,300	\$11,842	\$12,772
Restruct/Impairment	\$50	\$60	\$295	\$300	\$200	\$200	\$200
Equity/Interest/Other	\$50	\$0	(\$86)	(\$103)	\$200	\$0	\$0
Tax Rate	23.0%	26.0%	21.2%	24.0%	27.0%	27.0%	27.0%
Diluted EPS	\$0.36	\$0.44	\$0.93	\$1.07	\$1.12	\$1.47	\$1.66

**Valuation Not Attractive Enough:** Valuation tables are provided on page 6 of this report. INTC continues to trade near or above the highest levels of two separate peer groups in terms of current and expected price-earnings and price-sales ratios. The first peer group I use are large-cap, blue-chip technology firms that includes CSCO, DELL, GE, HPQ, IBM, MSFT; and the second set consists of large, vertically-integrated chip companies that includes AMD, MU, NSM, TXN and STM.

INTC appears somewhat attractive on a historical average price-sales ratio basis where it is currently trading at 3.5-times trailing sales, 2.8-times next year's expected sales, and 2.6-times 2011 sales against an average of 4.8-times since 1990. It is even more attractive based on price-earnings at 19.1-times this year (excluding the EC fine), 13.9-times next year and 12.3-times 2011 against my benchmark approximating 20-times. However, this would be predicated on overall equity market valuations reverting to the mean, and I would not expect INTC to outperform relative to its peers under such a scenario.

On a strictly fundamental basis, I would be interested in the shares in the mid-teens at the current time. My revised 12-month target price of \$24 from \$22 continues to be based on three-times expected sales, but rolling over to 2011 from 2010 this time of the year. If I were to embrace 20-times earnings I could justify a target price over \$30 based on either 2010 or 2011 estimates—but I'm not ready to do that given gross margins currently near the high-end of long-term targets (never mind macroeconomic uncertainty). I also continue to be reluctant to upgrade my recommendation to Buy from Hold due to limited potential upside as well as the seasonally normal nature of my current earnings model that could be considered optimistic in the current macroeconomic environment. I continue to recommend INTC as Hold, but acknowledge price action will likely track with overall equity markets.

<i>Diluted EPS</i>	4Q09	2009	2010	<i>Revenue</i>			
Tokeneke-revised	\$0.44	\$1.07	\$1.47	Tokeneke-revised	\$10,200	\$34,758	\$40,565
Tokeneke-previous	\$0.36	\$0.93	\$1.12	Tokeneke-previous	\$9,828	\$34,097	\$39,086
Consensus-previous	\$0.34	\$0.66	\$1.24	Consensus-previous	\$9,510	\$33,720	\$36,880
Highest Est-previous	\$0.41	\$0.77	\$1.48	Highest Est-previous	\$9,800	\$34,320	\$38,160
Lowest Est-previous	\$0.26	\$0.54	\$1.04	Lowest Est-previous	\$8,900	\$33,070	\$35,000

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Income Statement

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Dollars in millions, except per share data. \*3Q07 restated, \*2Q09 excludes \$1,447 fine.  
fiscal year ends December

	2008 act						2009 est					2010					2011					
	2006	2007	Q1	Q2	Q3	Q4	2008	Q1A	Q2A*	Q3A	Q4	2009	Q1	Q2	Q3	Q4	2010	Q1	Q2	Q3	Q4	2011
Sales	35,382	38,334	9,673	9,470	10,217	8,226	37,586	7,145	8,024	9,389	10,200	34,758	9,690	9,448	10,204	11,224	40,565	10,663	10,396	11,228	12,351	44,637
COGS	17,164	18,430	4,466	4,221	4,198	3,857	16,742	3,884	3,945	3,985	3,876	15,690	4,167	4,251	4,285	4,490	17,193	4,585	4,678	4,716	4,940	18,919
Gross Profit	18,218	19,904	5,207	5,249	6,019	4,369	20,844	3,261	4,079	5,404	6,324	19,068	5,523	5,196	5,918	6,734	23,372	6,078	5,718	6,512	7,410	25,718
R&D	5,873	5,755	1,467	1,468	1,471	1,316	5,722	1,317	1,303	1,430	1,487	5,537	1,487	1,487	1,547	1,609	6,130	1,609	1,609	1,657	1,707	6,580
MG&A	6,096	5,401	1,349	1,430	1,416	1,263	5,458	1,200	1,250	1,320	1,412	5,182	1,342	1,382	1,465	1,524	5,712	1,447	1,491	1,595	1,659	6,192
Amort/Restruct/other	597	532	329	96	34	251	710	74	91	75	60	300	50	50	50	50	200	50	50	50	50	200
Operating Expenses	12,566	11,688	3,145	2,994	2,921	2,830	11,890	2,591	2,644	2,825	2,960	11,020	2,879	2,919	3,062	3,182	12,042	3,106	3,149	3,302	3,415	12,973
Operating Income	5,652	8,216	2,062	2,255	3,098	1,539	8,954	670	1,435	2,579	3,364	8,048	2,644	2,277	2,856	3,552	11,330	2,972	2,569	3,210	3,995	12,745
Interest & Other	1,416	950	109	58	-265	-1,170	(1,268)	-18	-38	-47	0	(103)	0	0	0	0	0	0	0	0	0	0
Pretax Income	7,068	9,166	2,171	2,313	2,833	369	7,686	652	1,397	2,532	3,364	7,945	2,644	2,277	2,856	3,552	11,330	2,972	2,569	3,210	3,995	12,745
Taxes	2,024	2,190	728	712	819	135	2,394	5	348	676	875	1,904	714	615	771	959	3,059	802	694	867	1,079	3,441
Net Income	5,044	6,976	1,443	1,601	2,014	234	5,292	647	1,049	1,856	2,490	6,042	1,930	1,662	2,085	2,593	8,271	2,169	1,875	2,343	2,916	9,304
EPS-Basic	\$0.87	\$1.20	\$0.25	\$0.28	\$0.36	\$0.04	\$0.93	\$0.12	\$0.19	\$0.34	\$0.45	\$1.09	\$0.35	\$0.30	\$0.38	\$0.47	\$1.49	\$0.39	\$0.34	\$0.42	\$0.53	\$1.68
Shares-Basic	5,797	5,816	5,787	5,699	5,603	5,562	5,663	5,573	5,595	5,537	5,537	5,561	5,537	5,537	5,537	5,537	5,537	5,537	5,537	5,537	5,537	5,537
EPS-Diluted	\$0.86	\$1.18	\$0.25	\$0.28	\$0.35	\$0.04	\$0.92	\$0.11	\$0.18	\$0.33	\$0.44	\$1.07	\$0.34	\$0.30	\$0.37	\$0.46	\$1.47	\$0.39	\$0.33	\$0.42	\$0.52	\$1.66
Shares-Diluted	5,880	5,936	5,879	5,800	5,692	5,623	5,749	5,634	5,678	5,616	5,617	5,636	5,617	5,617	5,617	5,617	5,617	5,617	5,617	5,617	5,617	5,617
<b>Margin Analysis</b>																						
GM	51.5%	51.9%	53.8%	55.4%	58.9%	53.1%	55.5%	45.6%	50.8%	57.6%	62.0%	54.9%	57.0%	55.0%	58.0%	60.0%	57.6%	57.0%	55.0%	58.0%	60.0%	57.6%
R&D	16.6%	15.0%	15.2%	15.5%	14.4%	16.0%	15.2%	18.4%	16.2%	15.2%	14.6%	15.9%	15.3%	15.7%	15.2%	14.3%	15.1%	15.1%	15.5%	14.8%	13.8%	14.7%
SG&A	17.2%	14.1%	13.9%	15.1%	13.9%	15.4%	14.5%	16.8%	15.6%	14.1%	13.8%	14.9%	13.8%	14.6%	14.4%	13.6%	14.1%	13.6%	14.3%	14.2%	13.4%	13.9%
Operating Income	16.0%	21.4%	21.3%	23.8%	30.3%	18.7%	23.8%	9.4%	17.9%	27.5%	33.0%	23.2%	27.3%	24.1%	28.0%	31.6%	27.9%	27.9%	24.7%	28.6%	32.3%	28.6%
Pretax Income	20.0%	23.9%	22.4%	24.4%	27.7%	4.5%	20.4%	9.1%	17.4%	27.0%	33.0%	22.9%	27.3%	24.1%	28.0%	31.6%	27.9%	27.9%	24.7%	28.6%	32.3%	28.6%
Tax Rate	28.6%	23.9%	33.5%	30.8%	28.9%	36.6%	31.1%	0.8%	24.9%	26.7%	26.0%	24.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Net Income	14.3%	18.2%	14.9%	16.9%	19.7%	2.8%	14.1%	9.1%	13.1%	19.8%	24.4%	17.4%	19.9%	17.6%	20.4%	23.1%	20.4%	20.3%	18.0%	20.9%	23.6%	20.8%
<b>Qtr-to-Qtr Growth</b>																						
Revenue			-9.7%	-2.1%	7.9%	-19.5%		-13.1%	12.3%	17.0%	8.6%		-5.0%	-2.5%	8.0%	10.0%		-5.0%	-2.5%	8.0%	10.0%	
Gross Profit			-16.4%	0.8%	14.7%	-27.4%		-25.4%	25.1%	32.5%	17.0%		-12.7%	-5.9%	13.9%	13.8%		-9.7%	-5.9%	13.9%	13.8%	
Operating Income			-32.3%	9.4%	37.4%	-50.3%		-56.5%	114.2%	79.7%	30.5%		-21.4%	-13.9%	25.4%	24.4%		-16.3%	-13.6%	25.0%	24.4%	
Net Income			-36.5%	10.9%	25.8%	-88.4%		176.5%	62.1%	76.9%	34.1%		-22.5%	-13.9%	25.4%	24.4%		-16.3%	-13.6%	25.0%	24.4%	
EPS			-35.3%	12.5%	28.2%	-88.2%		176.0%	60.9%	78.9%	34.1%		-22.5%	-13.9%	25.4%	24.4%		-16.3%	-13.6%	25.0%	24.4%	
<b>Year-to-Year Growth</b>																						
Revenue	-8.9%	8.3%	9.3%	9.1%	1.3%	-23.2%	-2.0%	-26.1%	-15.3%	-8.1%	24.0%	-7.5%	35.6%	17.7%	8.7%	10.0%	16.7%	10.0%	10.0%	10.0%	10.0%	10.0%
Gross Profit	-21.0%	9.3%	17.5%	28.8%	16.4%	-29.8%	4.7%	-37.4%	-22.3%	-10.2%	44.7%	-8.5%	69.4%	27.4%	9.5%	6.5%	22.6%	10.0%	10.0%	10.0%	10.0%	10.0%
Operating Income	-53.3%	45.4%	23.1%	67.0%	44.5%	-49.5%	9.0%	-67.5%	-36.4%	-16.8%	118.6%	-10.1%	294.7%	58.7%	10.8%	5.6%	40.8%	12.4%	12.8%	12.4%	12.5%	12.5%
Net Income	-41.8%	38.3%	-11.8%	25.3%	12.5%	-89.7%	-24.1%	-55.2%	-34.5%	-7.8%	964.0%	14.2%	198.4%	58.5%	12.3%	4.2%	36.9%	12.4%	12.8%	12.4%	12.5%	12.5%
EPS	-38.8%	37.0%	-11.9%	27.8%	17.9%	-89.0%	-21.7%	-53.2%	-33.1%	-6.6%	965.1%	16.4%	199.3%	60.2%	12.3%	4.2%	37.4%	12.4%	12.8%	12.4%	12.5%	12.5%

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10/14/09

**Intel Corporation**

**Financial Summary**

Dollars in millions

Fiscal year ends December

	2005	2006	2007	2008	3Q08	4Q08	1Q09	2Q09	3Q09
<b>Assets</b>									
Cash and short-term investments	11,314	8,868	12,797	3,350	8,287	3,350	3,536	9,021	9,259
Trading assets	1,458	1,134	2,566	8,493	3,917	8,493	7,063	2,603	3,671
Net accounts receivable	3,914	2,709	2,576	1,712	2,782	1,712	2,086	1,938	2,025
<b>Quick Assets</b>	16,686	12,711	17,939	13,555	14,986	13,555	12,685	13,562	14,955
Inventories	3,126	4,314	3,370	3,744	3,398	3,744	3,045	2,805	2,490
Other	1,382	1,255	2,576	2,572	3,039	2,572	2,407	2,100	1,802
<b>Current Assets</b>	21,194	18,280	23,885	19,871	21,423	19,871	18,137	18,467	19,247
Property, plant and eqt, net	17,111	17,602	16,918	17,544	17,026	17,544	17,815	17,515	17,354
Long-term investments	4,672	4,421	5,385	3,276	4,221	3,276	2,925	3,515	4,377
Goodwill, net	3,873	3,861	3,916	3,932	3,924	3,932	3,932	3,932	4,421
Other assets	1,464	4,204	5,547	6,092	6,125	6,092	5,615	5,632	5,597
<b>Total Assets</b>	48,314	48,368	55,651	50,715	52,719	50,715	48,424	49,061	50,996
<b>Liabilities and Shareholders Equity</b>									
Short-term debt	313	180	142	102	467	102	31	24	23
Accounts payable	6,329	5,938	2,361	2,390	2,507	2,390	1,669	1,726	1,907
Deferred distribution income	639	599	625	463	656	463	468	480	602
Income taxes payable/other	1,960	1,797	5,443	4,863	6,438	4,863	4,125	4,849	5,217
<b>Current Liabilities</b>	9,241	8,514	8,571	7,818	10,068	7,818	6,293	7,079	7,749
Long-term debt	2,109	1,848	1,980	1,886	1,889	1,886	1,170	1,174	2,201
Deferred tax liabilities	792	1,254	1,196	782	818	782	662	556	386
Other	0	0	1,142	1,141	1,033	1,141	1,217	1,205	1,627
<b>Total Liabilities</b>	12,142	11,616	12,889	11,627	13,808	11,627	9,342	10,014	11,963
Common stock	7,641	7,641	11,653	12,944	12,744	12,944	13,845	13,995	14,763
Retained earnings	49,668	54,712	30,848	26,537	26,303	26,537	25,627	25,205	24,037
Other	(21,127)	(25,601)	261	(393)	(136)	(393)	(390)	(153)	233
<b>Total Shareholders Equity</b>	36,182	36,752	42,762	39,088	38,911	39,088	39,082	39,047	39,033
<b>Total Liabilities and Equity</b>	48,324	48,368	55,651	50,715	52,719	50,715	48,424	49,061	50,996
<b>Sales and Income</b>									
Revenue	38,826	35,382	38,334	37,586	10,217	8,226	7,145	8,024	9,389
COGS	15,777	17,164	18,430	16,742	4,198	3,857	3,884	3,945	3,985
Net income	8,664	5,044	6,976	5,292	2,014	234	652	(398)	1,856
<b>Other</b>									
Capital Expenditures	5,818	5,766	5,000	5,197	1,374	1,765	1,509	981	944
Depreciation	14,345	4,654	4,546	4,360	1,059	1,157	1,208	1,211	1,153
Shares (weighted average diluted)	6,178	5,880	5,936	5,748	5,692	5,623	5,634	5,678	5,616
Employees (units)	99,900	94,100	86,300	83,900	83,500	83,900	82,500	80,500	80,800
Dividends paid	1,972	2,320	2,617	3,100	783	778	779	784	771
Shares repurchased	418	227	111	324	93	0	0	0	88
Value of Shares Repurchased	10,637	4,593	2,750	7,117	2,117	0	0	0	1,671
<b>Ratios</b>									
<b>Liquidity</b>									
Quick Ratio	1.81	1.49	2.09	1.73	1.49	1.73	2.02	1.92	1.93
Current Ratio	2.29	2.15	2.79	2.54	2.13	2.54	2.88	2.61	2.48
<b>Leverage</b>									
Debt Ratio	0.25	0.24	0.23	0.23	0.26	0.23	0.19	0.20	0.23
Long-term Debt/Capital	0.06	0.06	0.08	0.08	0.07	0.08	0.06	0.06	0.08
<b>Asset Management</b>									
Fixed Asset Turnover	2.4	2.0	2.2	2.2	2.4	1.9	1.6	1.8	2.2
Total Asset Turnover	0.8	0.7	0.7	0.7	0.8	0.6	0.6	0.7	0.8
Receivables DSO	36	28	24	16	25	19	26	22	19
Inventory Days	71	90	66	81	73	87	71	64	56
Inventory Turnover	5.5	4.6	4.8	4.7	5.0	4.3	4.6	5.4	6.0
Revenue/Employee (\$000)	561	543	623	593	124	98	86	98	116
<b>Profitability</b>									
Gross Margin	59.4%	51.5%	51.9%	55.5%	58.9%	53.1%	45.6%	50.8%	57.6%
Net Margin	22.3%	14.3%	18.2%	14.1%	19.7%	2.8%	9.1%	-5.0%	19.8%
Return on Assets	17.9%	10.4%	13.4%	10.0%	15.3%	1.8%	5.3%	-3.3%	14.8%
Return on Equity	23.2%	13.8%	17.5%	12.9%	20.3%	2.4%	6.7%	-4.1%	19.0%
<b>Per Share Data</b>									
Book Value/Share	\$5.86	\$6.25	\$7.20	\$6.80	\$6.84	\$6.95	\$6.94	\$6.88	\$6.95
Tangible Book Value/Share	\$5.23	\$5.59	\$6.54	\$6.12	\$6.15	\$6.25	\$6.24	\$6.18	\$6.16
Cash/Share (incl long-term)	\$2.82	\$2.45	\$3.50	\$2.63	\$2.89	\$2.69	\$2.40	\$2.67	\$3.08
Cash/Share (net, incl long-term)	\$2.43	\$2.11	\$3.14	\$2.28	\$2.47	\$2.34	\$2.19	\$2.46	\$2.69
Earnings/Share	\$1.40	\$0.86	\$1.18	\$0.92	\$0.35	\$0.04	\$0.12	(\$0.07)	\$0.33



**Intel Corporation**  
**Valuation**

**Relative Valuation**

Company	Ticker	Price 10/13/09	52-Week		CY EPS				CY P/E				Shares (mil)	CAP (\$ mil)	Price-Sales			FY Ends	Qtr Div/sh	Div Yield
			Low	High	2007	2008	2009	2010	2007	2008	2009	2010			TTM	Cur FY	Nxt FY			
Intel *	INTC	20.49	12.05	20.65	1.16	0.92	0.93	1.12	17.7	22.3	22.0	18.3	5,616	115,072	3.5	3.3	2.8	Dec	\$0.14	2.7%
Cisco Systems	CSCO	23.89	13.61	24.22	1.48	1.51	1.24	1.44	16.1	15.8	19.3	16.6	5,840	139,518	3.9	3.8	3.5	Jul		
Dell Computer	DELL	15.31	7.84	17.26	1.31	1.35	1.06	1.27	11.7	11.3	14.4	12.1	1,960	30,008	0.6	0.6	0.5	Jan		
General Electric	GE	16.39	5.87	22.39	2.20	1.78	0.97	0.91	7.5	9.2	16.9	18.0	10,609	173,882	1.0	1.1	1.1	Dec	\$0.10	2.4%
Hewlett Packard	HPQ	46.69	25.39	48.00	3.13	3.80	3.92	3.85	14.9	12.3	11.9	12.1	2,436	113,737	1.0	1.0	1.0	Oct	\$0.08	0.7%
IBM	IBM	127.02	69.50	127.10	7.13	8.93	9.77	10.75	17.8	14.2	13.0	11.8	1,337	169,813	1.7	1.8	1.7	Dec	\$0.55	1.7%
Microsoft	MSFT	25.81	14.87	26.25	1.83	1.88	1.56	1.80	14.1	13.7	16.5	14.3	8,928	230,432	3.9	3.9	3.7	Jun	\$0.13	2.0%
Average									13.7	12.8	15.3	14.2			2.0	2.0	1.9			

**Relative Valuation**

Company	Ticker	Price 10/13/09	52-Week		CY EPS				CY P/E				Shares (mil)	CAP (\$ mil)	Price-Sales			FY Ends	Qtr Div/sh	Div Yield
			Low	High	2007	2008	2009	2010	2007	2008	2009	2010			TTM	Cur FY	Nxt FY			
Intel *	INTC	20.49	12.05	20.65	1.16	0.92	0.93	1.12	17.7	22.3	22.0	18.3	5,616	115,072	3.5	3.3	2.8	Dec	\$0.14	2.7%
Advanced Micro Devices	AMD	6.08	1.62	6.30	-2.59	-1.96	-1.91	-0.97	NM	NM	NM	NM	667	4,055	0.8	0.8	0.8	Dec		
Micron Technology *	MU	8.66	1.59	9.13	-0.8	-1.72	-1.5	0.97	NM	NM	NM	8.9	844	7,312	1.5	1.0	0.9	Aug		
National Semiconductor *	NSM	14.4	9.02	16.20	1.13	1.12	0.07	0.54	12.7	12.9	NM	26.7	238	3,426	2.6	2.7	2.6	May	\$0.08	2.2%
Texas Instruments *	TXN	23.62	13.38	25.35	1.8	1.51	1.09	1.48	13.1	15.6	21.7	16.0	1,272	30,045	2.9	3.0	2.8	Dec	\$0.12	2.0%
STMicroelectronics	STM	9.89	3.73	9.99	0.44	0.44	-0.75	0.17	22.5	22.5	NM	58.2	877	8,670	1.0	1.1	1.0	Dec-ADR	\$0.03	1.2%
Average									16.1	17.0	21.7	27.4			1.8	1.7	1.6			

\* Tokeneke estimate  
Source: consensus as of 10/13/09

**Historical Valuation**

Company	Ticker	Price 10/13/09	Trailing 12-month								
			Price/Earnings		Price/Sales		Price/Book				
			Current	Historical*	Current	Historical*	Current	Historical*			
Intel	INTC	\$20.49	31.0		3.5		3.0				
			Average	24.0	Average	4.8	Average	4.8			
			High	65.4	High	15.7	High	14.4			
			Low	9.9	Low	1.6	Low	1.7			

\* weekly since 1990

### The Company

Tokeneke Research is an independent research firm specializing in semiconductor industry business issues, providing fundamental research focused on US equities across all market capitalizations within the sector to investors. The company was founded in 2005 and is based in Connecticut.

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### My Background

I have an electrical engineering background, nearly 12 years of semiconductor industry experience, and was on Wall Street for nearly eight years where I was selected as the Best On The Street semiconductor analyst for 2002 by The Wall Street Journal, and third-rated Best of the Best across all sectors.

I obtained my undergraduate BS degree in electrical engineering from the University of Washington, and my MBA from Santa Clara University. My industry experience consists of nearly 12 years in various technical sales and marketing roles at four different semiconductor firms located in Silicon Valley beginning with Advanced Micro Devices in 1984, followed by two small start-up companies, and ending at Cirrus Logic where I supported the firm's Japanese market development. I joined Fahnestock & Co. as a senior semiconductor analyst in 1996 and was recruited by Needham & Co. in April 2000.

My formal coverage list as a sell-side analyst included the following equities: AMD, ALSC, ALTR, ARTI, ATML, CUBE, CY, ESST, GNSS, INTC, ISSI, LSI, MOSY, MU, OIIM, OVTI, RMTR, SIII, SMSC, STEC, SVTG, TDFX, TSRA, TXN, and ZRAN.

—**Dan K. Scovel**  
*Semiconductor Analyst*

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