

Tempered Seasonal Weakness and ASP Strength Drives 1Q Margin Strength Expected to Persist—But I Remain Skeptical. Reiterate Hold.

Diluted Shares(mil):	5,681	<u>Closing Price 4/13/10</u>	<u>fye Dec</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Market Cap(\$mil):	\$129,356	\$22.77	Revenue(\$mil)	\$35,127	\$43,200	\$46,303
Avg Volume(,000):	63,832		EPS	\$1.17	\$1.83	\$1.88
Net Cash/Share:	\$3.38	<u>Recommendation/Target</u>	Price/Sales	3.7	3.0	2.8
Quarter Dividend:	\$0.1575	Hold(weak Buy?)/\$25	Price/EPS	19.5	12.4	12.1

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 1Q revenue exceeded the high-end of guidance and reflected tempered seasonal weakness, while gross margin strength from higher prices of new products yielded earnings above the high-end of published expectations—and triggered a significant increase in management margin guidance for the year. I am raising my estimates following 1Q upside, but am maintaining my target price of \$25 based on 3-times 2011 sales and my Hold recommendation due to limited potential upside. I also remain unconvinced that the company's record gross margin levels will persist throughout 2010, as reflected in management guidance.

The Bull Case: The company claims the best competitive product offering across all market segments due to the introduction of its Nehalem architecture, 32nm process technology, and Atom offerings, and claimed continuing consumer demand strength last quarter was augmented by the first signs of a corporate PC demand recovery. Revenue declined by -2.6%, which was about half of the seasonal norm for 1Q, and 2Q guidance calling for a slight decline is also quite strong relative to historical seasonal norms. But the real strength in the INTC story is gross margin: gross margin of 63.4% was 40 basis points above the high end of guidance and down by 130 basis points sequentially mostly due to better than expected ASPs on a richer mix of new high-end 32nm offerings, but also slightly higher volume and lower start-up costs; and even more significant was management increasing gross margin guidance for the year 2010 to 64% +/- a couple of points from 61% +/- 3 points with half of that increase due to ASPs, one-third due to lower costs, and the balance due to higher volume. Management is emboldened by 1Q ASP strength from new high-end offerings as well as shipments of new EX multi-processor offerings for servers that just began shipping the last two weeks of 1Q. In addition, I expect the company will try to convince investors that it can sustain over 60% gross margins at the May 11 analyst day despite the historical range of 50-60% and the all-time record of 64.7% 4Q09. If you believe management guidance for 64% gross margin, then 20-times my earnings of \$1.83 this year and \$1.88 next year should render you bullish on the shares with a target price in the high-\$30 range.

A Skeptical Rebuttal: My revised earnings model reflects 64% annual gross margin for 2010 consistent with guidance, but I don't believe it and am not giving the shares credit for it in terms of valuation by basing my target price on sales rather than earnings. Hence my \$25 target price at 3-times sales. Gross margin over 60% has proven impossible for INTC to sustain historically: its vertically integrated manufacturing business model is highly leveraged to fixed costs, and any one of a number of factors have toppled such peak levels in the past including lower volume, manufacturing hiccups, new technology hiccups, and even competitive offerings. Something has always happened, although forecasting exactly what it would be has not been easy or obvious. In this case I think it is possible that management may be somewhat blind to its own recent success: 1H10 gross margins will be temporarily boosted due to new high-end mobile offerings 1Q and EX offerings 2Q, but this tailwind could easily turn into a headwind during 2H10 as the new offerings during that time will shift to the mid-range and low-end—and seasonal strength during that period could disproportionately skew its product mix even more to the low-end. This will certainly hurt ASPs and, by extension, crimp revenue growth; although I admit the margin impact will be less direct depending on the relative cost structure of these new 32nm offerings. While the magnitude of the headwinds to gross margin 2H10 is arguable based on a function of relative product category segment cost structure, I am simply not embracing the management argument that margins will trend directionally upward during that time.

1Q Review: Revenue declined by 2.6% to \$10.3B, which was greater than the high-end of guidance and about half of the normal seasonal decline. Processor units declined slightly less than the seasonal norm and ASPs increased slightly, although were flat excluding Atom sales. Sales of new mobile processors were especially strong with record revenue and increasing ASPs. EPS of \$0.43 was 7-cents above my estimate, 5-cents above consensus, and 2-

cents above the highest published estimate due to gross margin and revenue strength. Gross margin of 63.4% declined by 130 basis points but exceeded the high-end of guidance mostly due to better than expected ASPs on a richer mix of new high-end 32nm offerings, but also slightly higher volume and lower start-up costs. Short and long-term cash and equivalents grew by \$2.4B to over \$21B after \$4B in CFO, and although management has been steadily increasing dividends, share repurchases have been noticeably absent in recent quarters and management hinted at a possible strategic acquisition rendering comfort with current record levels. Inventory is too lean for management's comfort of new 32nm offerings, and revenue per employee of \$129K was the third highest in history.

FYE December in millions	1Q10					
	Estimate	Actual	EPS Impact	Guidance	Consensus	Range
Revenue	\$9,900	\$10,299	\$0.03	\$9,300-10,100	\$9,820	\$9,650-10,310
Revenue Growth	-6.3%	-2.6%				
Gross Margin	59.0%	63.4%	\$0.05	59%-63%		
R&D + MG&A	\$2,968	\$3,078	(\$0.01)	\$3,000		
Restruct/Impairment	\$20	\$3		\$20		
Equity/Interest/Other	\$20	(\$2)		\$20		
Tax Rate	30.0%	29.1%		30.0%		
Diluted Shares	5,622	5,681				
Diluted EPS	\$0.36	\$0.43	\$0.07		\$0.38	\$0.35-\$0.41

Better than Seasonal Demand: High-end consumer demand propelled revenue and margin with mobile sales setting a record driven by both new Arrandale offerings and established ones. Strength was due more to mix and price rather than volume from the corporate PC side. Intel's inventory remains lean, OEM inventory was flat, and channel inventory remains at normal levels. Management believes corporate strength will persist due to the age of the installed base (four years for notebooks, five years for desktops) and the favorable cost-of-ownership economics associated with upgrading such PC hardware. Netbooks continue to track at 20% of notebook unit sales, although remain solely in the consumer space amid a noticeable lack of corporate adoption. Management also expressed enthusiasm for tablet PCs as a new form factor offering incremental sales with its Morristown Atom offering.

Lots of New Products: The 32nm ramp replacement for existing 45nm technology is the fastest in company history with over 50 SKU's from two fabs at lower than expected cost and faster than expected output, and the scheduled output from a total of four fabs has been accelerated to early 4Q. Next generation Sandy Bridge processors began sampling last quarter and will ramp production later this year. INTC was delinquent to customer demand for 32nm product last quarter, but expects to catch up this quarter. The new Nehalem-EX multi-processor server offering just began shipping the last two weeks of last quarter, and the company will benefit from a full quarter of shipments this period into some 30 announced platforms which is expected to offset some of this quarter's traditional seasonal weakness. A thinner mix of servers shipped last quarter as multi-processor inventory bled ahead of the EX ramp, but also single-processor offerings for small and medium-sized businesses were a richer portion of the server mix with demand strength that management hopes indicates the beginning of a corporate refresh cycle. Dual core Atom offerings are coming out this quarter, and then some kind of very low-power Atom offering for SSDs next year. Atom sales of \$355M declined by 19% last quarter.

Management Guidance: 2Q guidance includes: revenue of \$10.2B +/- \$400M; gross margin of 64% +/- a couple of points; R&D and MG&A at \$3.1B; interest and other at zero; and depreciation at \$1.1B. The sequential increase in gross margin is due to 200bps of lower cost offset by 50bps each of lower ASPs and fewer sales of written off inventory. 2010 guidance includes: gross margin at 64% +/- couple points (up from 61% +/- 3 points); operating expenses at \$12.4B +/- \$100M (up from \$11.8B +/- \$100M); R&D at \$6.4B; quarterly tax rate at 31%; depreciation at \$4.4B +/- \$100M; and cap ex at \$4.8B +/- \$100M. The expected gross margin increase is due to 150bps for ASPs, 100bps for lower costs, and 50bps for higher volume. The 200-300 basis point annual gross margin impact due to ASP erosion has been halved due to demand for new 32nm offerings last quarter in this year's guidance. Tailwinds on gross margins for the 2H10 include seasonally increasing volume and lower costs from ramping 32nm including less start-up costs, offset by initial inventory write-downs of pre-production, next-generation Sandy Bridge offerings, as well as a certain amount of price erosion—albeit expected to be less than normal due to new offerings. Also, the initial Sandy Bridge write-downs would hopefully result in margin benefits in subsequent periods.

Raising Estimates: I am raising my revenue estimates following last quarter's upside, and I am also raising my gross margin assumption consistent with management guidance despite my disbelief outlined above. As I noted last quarter, 60%+ margins at Intel have never lasted longer than three quarters since 1994 except for the year 2000.

Only two full fiscal years delivered gross margins over 60%: 2000 at 62.5% that included a five quarter stretch from 4Q99 through 4Q00; and 1997 that squeaked in at 60.3% with a three quarter stretch from 4Q96 to 2Q97. The only other quarters of those magnitude margins since 1994 were 4Q03 at 63.6%, 1Q04 at 60.2%, 4Q05 at 61.8%, 4Q09 at the record 64.7%, and last quarter's 63.4%. Also recall that my previous model yielded annual EPS of \$1.67 for 2010 and \$1.86 for 2011 when using gross margins consistent with 2010 guidance.

<i>in millions</i>	2Q10		2010		2011	
	Previous	Update	Previous	Update	Previous	Update
Revenue	\$9,653	\$10,200	\$41,444	\$43,200	\$45,605	\$46,303
Revenue Growth	-2.5%	-1.0%	18.0%	23.0%	10.0%	7.2%
Gross Margin	55.0%	64.0%	58.4%	63.9%	57.9%	61.1%
R&D + MG&A	\$2,968	\$3,094	\$12,256	\$12,608	\$12,910	\$13,083
Restruct/Impairment	\$50	\$0	\$170	\$3	\$200	\$0
Equity/Interest/Other	\$0	\$0	\$20	(\$2)	\$0	\$0
Tax Rate	30.0%	31.0%	30.0%	30.6%	30.0%	30.0%
Diluted EPS	\$0.29	\$0.42	\$1.47	\$1.83	\$1.65	\$1.88

Problematic Valuation: Valuation tables are provided on page 7 of this report. In terms of expected price-sales ratios, INTC continues to trade above the average of its large-cap peers and the highest among its semiconductor peers. It trades below the average of both peer groups in terms price-earnings, although this is a depressed number due to my inflated employment of management margin guidance. 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, mostly vertically-integrated chip companies that includes AMD, MU, NSM, TXN and STM.

INTC also remains somewhat attractive on a historical average price-sales ratio basis where it is currently trading at 3.7-times trailing sales, 3.0-times next year's expected sales, and 2.8-times 2011 sales against an average of 4.8-times since 1990. It is even more attractive based on price-earnings at 19.5-times this year (excluding charges), 12.4-times next year and 12.1-times 2011 against my benchmark approximating 20-times. However, this involves embracing unbelievable gross margin guidance, which I am reluctant to do.

My 12-month target price of \$25 is based on three-times 2011 expected sales. If I were to embrace 20-times earnings I could justify a target price approaching \$40 on either 2010 or 2011 estimates, although this would entail embracing unbelievable 64% gross margins. I would not recommend shorting the shares at current price levels, but I am reluctant to upgrade my recommendation to Buy given limited potential upside and margin guidance disbelief.

<i>Diluted EPS</i>	2Q10	2010	2011
Tokeneke-revised	\$0.42	\$1.83	\$1.88
Tokeneke-previous	\$0.29	\$1.47	\$1.65
Consensus-previous	\$0.36	\$1.67	\$1.82
Highest Est-previous	\$0.42	\$1.90	\$2.10
Lowest Est-previous	\$0.32	\$1.47	\$1.45

<i>Revenue</i>	2Q10	2010	2011
Tokeneke-revised	\$10,200	\$43,200	\$46,303
Tokeneke-previous	\$9,653	\$41,444	\$45,605
Consensus-previous	\$9,680	\$40,900	\$43,370
Highest Est-previous	\$10,500	\$43,200	\$45,810
Lowest Est-previous	\$9,300	\$38,300	\$40,400

—Dan K. Scovel
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Income Statement

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Dollars in millions. *3Q07 & 1Q09 restated, *2Q09 excl. \$1,447 fine, *4Q09 excl. \$1.25B fine & tax.
fiscal year ends December

			2008				2009 act					2010 est				2011						
	2006	2007	Q1	Q2	Q3	Q4	2008	Q1*	Q2*	Q3	Q4*	2009	Q1A	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	10,569	35,127	10,299	10,200	10,914	11,787	43,200	11,198	10,918	11,573	12,614	46,303
COGS	17,164	18,430	4,466	4,221	4,198	3,857	16,742	3,907	3,945	3,985	3,729	15,566	3,770	3,672	3,929	4,243	15,614	4,479	4,585	4,398	4,541	18,003
Gross Profit	18,218	19,904	5,207	5,249	6,019	4,369	20,844	3,238	4,079	5,404	6,840	19,561	6,529	6,528	6,985	7,544	27,586	6,719	6,332	7,175	8,073	28,299
R&D	5,873	5,755	1,467	1,468	1,471	1,316	5,722	1,317	1,303	1,430	1,603	5,653	1,564	1,580	1,611	1,660	6,414	1,660	1,660	1,709	1,761	6,789
MG&A	6,096	5,401	1,349	1,430	1,416	1,263	5,458	1,198	1,250	1,320	1,468	5,236	1,514	1,514	1,544	1,621	6,194	1,508	1,508	1,583	1,694	6,294
Amort/Restruct/other	597	532	329	96	34	251	710	76	91	75	22	264	3	0	0	0	3	0	0	0	0	0
Operating Expenses	12,566	11,688	3,145	2,994	2,921	2,830	11,890	2,591	2,644	2,825	3,093	11,153	3,081	3,094	3,156	3,281	12,611	3,168	3,168	3,293	3,455	13,083
Operating Income	5,652	8,216	2,062	2,255	3,098	1,539	8,954	647	1,435	2,579	3,747	8,408	3,448	3,434	3,829	4,263	14,975	3,551	3,165	3,882	4,618	15,217
Interest & Other	1,416	950	109	58	-265	-1,170	(1,268)	-18	-38	-47	96	(7)	-2	0	0	0	(2)	0	0	0	0	0
Pretax Income	7,068	9,166	2,171	2,313	2,833	369	7,686	629	1,397	2,532	3,843	8,401	3,446	3,434	3,829	4,263	14,973	3,551	3,165	3,882	4,618	15,217
Taxes	2,024	2,190	728	712	819	135	2,394	0	348	676	749	1,773	1,004	1,065	1,187	1,321	4,577	1,065	949	1,165	1,386	4,565
Net Income	5,044	6,976	1,443	1,601	2,014	234	5,292	629	1,049	1,856	3,094	6,628	2,442	2,370	2,642	2,941	10,395	2,486	2,215	2,718	3,233	10,652
EPS-Basic	\$0.87	\$1.20	\$0.25	\$0.28	\$0.36	\$0.04	\$0.93	\$0.11	\$0.19	\$0.34	\$0.56	\$1.19	\$0.44	\$0.43	\$0.48	\$0.53	\$1.88	\$0.45	\$0.40	\$0.49	\$0.58	\$1.93
Shares-Basic	5,797	5,816	5,787	5,699	5,603	5,562	5,663	5,573	5,595	5,537	5,522	5,557	5,529	5,529	5,529	5,529	5,529	5,529	5,529	5,529	5,529	5,529
EPS-Diluted	\$0.86	\$1.18	\$0.25	\$0.28	\$0.35	\$0.04	\$0.92	\$0.11	\$0.18	\$0.33	\$0.55	\$1.17	\$0.43	\$0.42	\$0.47	\$0.52	\$1.83	\$0.44	\$0.39	\$0.48	\$0.57	\$1.88
Shares-Diluted	5,880	5,936	5,879	5,800	5,692	5,623	5,749	5,634	5,678	5,616	5,650	5,645	5,681	5,679	5,679	5,679	5,680	5,679	5,679	5,679	5,679	5,679
Margin Analysis																						
GM	51.5%	51.9%	53.8%	55.4%	58.9%	53.1%	55.5%	45.3%	50.8%	57.6%	64.7%	55.7%	63.4%	64.0%	64.0%	64.0%	63.9%	60.0%	58.0%	62.0%	64.0%	61.1%
R&D	16.6%	15.0%	15.2%	15.5%	14.4%	16.0%	15.2%	18.4%	16.2%	15.2%	15.2%	16.1%	15.2%	15.5%	14.8%	14.1%	14.8%	14.8%	15.2%	14.8%	14.0%	14.7%
SG&A	17.2%	14.1%	13.9%	15.1%	13.9%	15.4%	14.5%	16.8%	15.6%	14.1%	13.9%	14.9%	14.7%	14.8%	14.1%	13.8%	14.3%	13.5%	13.8%	13.7%	13.4%	13.6%
Operating Income	16.0%	21.4%	21.3%	23.8%	30.3%	18.7%	23.8%	9.1%	17.9%	27.5%	35.5%	23.9%	33.5%	33.7%	35.1%	36.2%	34.7%	31.7%	29.0%	33.5%	36.6%	32.9%
Pretax Income	20.0%	23.9%	22.4%	24.4%	27.7%	4.5%	20.4%	8.8%	17.4%	27.0%	36.4%	23.9%	33.5%	33.7%	35.1%	36.2%	34.7%	31.7%	29.0%	33.5%	36.6%	32.9%
Tax Rate	28.6%	23.9%	33.5%	30.8%	28.9%	36.6%	31.1%	0.0%	24.9%	26.7%	19.5%	21.1%	29.1%	31.0%	31.0%	31.0%	30.6%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income	14.3%	18.2%	14.9%	16.9%	19.7%	2.8%	14.1%	8.8%	13.1%	19.8%	29.3%	18.9%	23.7%	23.2%	24.2%	25.0%	24.1%	22.2%	20.3%	23.5%	25.6%	23.0%
Qtr-to-Qtr Growth																						
Revenue			-9.7%	-2.1%	7.9%	-19.5%		-13.1%	12.3%	17.0%	12.6%		-2.6%	-1.0%	7.0%	8.0%		-5.0%	-2.5%	6.0%	9.0%	
Gross Profit			-16.4%	0.8%	14.7%	-27.4%		-25.9%	26.0%	32.5%	26.6%		-4.5%	0.0%	7.0%	8.0%		-10.9%	-5.7%	13.3%	12.5%	
Operating Income			-32.3%	9.4%	37.4%	-50.3%		-58.0%	121.8%	79.7%	45.3%		-8.0%	-0.4%	11.5%	11.3%		-16.7%	-10.9%	22.7%	19.0%	
Net Income			-36.5%	10.9%	25.8%	-88.4%		168.8%	66.8%	76.9%	66.7%		-21.1%	-3.0%	11.5%	11.3%		-15.5%	-10.9%	22.7%	19.0%	
EPS			-35.3%	12.5%	28.2%	-88.2%		168.3%	65.5%	78.9%	65.7%		-21.5%	-2.9%	11.5%	11.3%		-15.5%	-10.9%	22.7%	19.0%	
Year-to-Year Growth																						
Revenue	-8.9%	8.3%	9.3%	9.1%	1.3%	-23.2%	-2.0%	-26.1%	-15.3%	-8.1%	28.5%	-6.5%	44.1%	27.1%	16.2%	11.5%	23.0%	8.7%	7.0%	6.0%	7.0%	7.2%
Gross Profit	-21.0%	9.3%	17.5%	28.8%	16.4%	-29.8%	4.7%	-37.8%	-22.3%	-10.2%	56.6%	-6.2%	101.6%	60.0%	29.3%	10.3%	41.0%	2.9%	-3.0%	2.7%	7.0%	2.6%
Operating Income	-53.3%	45.4%	23.1%	67.0%	44.5%	-49.5%	9.0%	-68.6%	-36.4%	-16.8%	143.5%	-6.1%	432.9%	139.3%	48.5%	13.8%	78.1%	3.0%	-7.8%	1.4%	8.3%	1.6%
Net Income	-41.8%	38.3%	-11.8%	25.3%	12.5%	-89.7%	-24.1%	-56.4%	-34.5%	-7.8%	1222%	25.2%	288.2%	125.9%	42.4%	-4.9%	56.8%	1.8%	-6.5%	2.9%	9.9%	2.5%
EPS	-38.8%	37.0%	-11.9%	27.8%	17.9%	-89.0%	-21.7%	-54.5%	-33.1%	-6.6%	1216%	27.6%	285.0%	125.9%	40.8%	-5.4%	55.9%	1.8%	-6.5%	2.9%	9.9%	2.5%

Intel Corporation

Financial Summary

Dollars in millions

Fiscal year ends December

	2006	2007	2008	2009	1Q09	2Q09	3Q09	4Q09	1Q10
Assets									
Cash and short-term investments	8,868	12,797	3,350	9,272	3,536	9,021	9,259	9,272	10,915
Trading assets	1,134	2,566	8,493	4,648	7,063	2,603	3,671	4,648	5,427
Net accounts receivable	<u>2,709</u>	<u>2,576</u>	<u>1,712</u>	<u>2,273</u>	<u>2,086</u>	<u>1,938</u>	<u>2,025</u>	<u>2,273</u>	<u>2,192</u>
Quick Assets	12,711	17,939	13,555	16,193	12,685	13,562	14,955	16,193	18,534
Inventories	4,314	3,370	3,744	2,935	3,045	2,805	2,490	2,935	2,986
Other	<u>1,255</u>	<u>2,576</u>	<u>2,572</u>	<u>2,029</u>	<u>2,407</u>	<u>2,100</u>	<u>1,802</u>	<u>2,029</u>	<u>2,204</u>
Current Assets	18,280	23,885	19,871	21,157	18,137	18,467	19,247	21,157	23,724
Property, plant and eqt, net	17,602	16,918	17,544	17,225	17,815	17,515	17,354	17,225	17,028
Long-term investments	4,421	5,385	3,276	4,952	2,925	3,515	4,377	4,952	5,252
Goodwill, net	3,861	3,916	3,932	4,421	3,932	3,932	4,421	4,421	4,452
Other assets	<u>4,204</u>	<u>5,547</u>	<u>6,092</u>	<u>5,340</u>	<u>5,615</u>	<u>5,632</u>	<u>5,597</u>	<u>5,340</u>	<u>5,317</u>
Total Assets	48,368	55,651	50,715	53,095	48,424	49,061	50,996	53,095	55,773
Liabilities and Shareholders Equity									
Short-term debt	180	142	102	172	31	24	23	172	330
Accounts payable	5,938	2,361	2,390	1,883	1,669	1,726	1,907	1,883	1,912
Deferred distribution income	599	625	463	593	468	480	602	593	653
Income taxes payable/other	<u>1,797</u>	<u>5,443</u>	<u>4,863</u>	<u>4,943</u>	<u>4,125</u>	<u>4,849</u>	<u>5,217</u>	<u>4,943</u>	<u>6,017</u>
Current Liabilities	8,514	8,571	7,818	7,591	6,293	7,079	7,749	7,591	8,912
Long-term debt	1,848	1,980	1,886	2,049	1,170	1,174	2,201	2,049	2,052
Deferred tax liabilities	1,254	1,196	782	193	662	556	386	193	174
Other	<u>0</u>	<u>1,142</u>	<u>1,141</u>	<u>1,558</u>	<u>1,217</u>	<u>1,205</u>	<u>1,627</u>	<u>1,558</u>	<u>1,735</u>
Total Liabilities	11,616	12,889	11,627	11,391	9,342	10,014	11,963	11,391	12,873
Common stock	7,641	11,653	12,944	14,993	13,845	13,995	14,763	14,993	15,466
Retained earnings	54,712	30,848	26,537	26,318	25,627	25,205	24,037	26,318	27,020
Other	<u>(25,601)</u>	<u>261</u>	<u>(393)</u>	<u>393</u>	<u>(390)</u>	<u>(153)</u>	<u>233</u>	<u>393</u>	<u>414</u>
Total Shareholders Equity	36,752	42,762	39,088	41,704	39,082	39,047	39,033	41,704	42,900
Total Liabilities and Equity	48,368	55,651	50,715	53,095	48,424	49,061	50,996	53,095	55,773
Sales and Income									
Revenue	35,382	38,334	37,586	35,127	7,145	8,024	9,389	10,569	10,299
COGS	17,164	18,430	16,742	15,543	3,884	3,945	3,985	3,729	3,770
Net income	5,044	6,976	5,292	4,369	652	(398)	1,856	2,282	2,442
Other									
Capital Expenditures	5,766	5,000	5,197	4,515	1,509	981	944	1,081	928
Depreciation	4,654	4,546	4,360	4,744	1,208	1,211	1,153	1,172	1,080
Shares (weighted average diluted)	5,880	5,936	5,748	5,645	5,634	5,678	5,616	5,650	5,681
Employees (units)	94,100	86,300	83,900	79,800	82,500	80,500	80,800	79,800	79,900
Dividends paid	2,320	2,617	3,100	3,108	779	784	771	774	870
Shares repurchased	227	111	324	88	0	0	88	0	0
Value of Shares Repurchased	4,593	2,750	7,117	1,671	0	0	1,671	0	0
Ratios									
Liquidity									
Quick Ratio	1.49	2.09	1.73	2.13	2.02	1.92	1.93	2.13	2.08
Current Ratio	2.15	2.79	2.54	2.79	2.88	2.61	2.48	2.79	2.66
Leverage									
Debt Ratio	0.24	0.23	0.23	0.21	0.19	0.20	0.23	0.21	0.23
Long-term Debt/Capital	0.06	0.08	0.08	0.07	0.06	0.06	0.08	0.07	0.07
Asset Management									
Fixed Asset Turnover	2.0	2.2	2.2	2.0	1.6	1.8	2.2	2.4	2.4
Total Asset Turnover	0.7	0.7	0.7	0.7	0.6	0.7	0.8	0.8	0.8
Receivables DSO	28	24	16	23	26	22	19	19	19
Inventory Days	90	66	81	68	71	64	56	71	71
Inventory Turnover	4.6	4.8	4.7	4.7	4.6	5.4	6.0	5.5	5.1
Revenue/Employee (\$000)	543	623	593	591	86	98	116	132	129
Profitability									
Gross Margin	51.5%	51.9%	55.5%	55.8%	45.6%	50.8%	57.6%	64.7%	63.4%
Net Margin	14.3%	18.2%	14.1%	12.4%	9.1%	-5.0%	19.8%	21.6%	23.7%
Return on Assets	10.4%	13.4%	10.0%	8.4%	5.3%	-3.3%	14.8%	17.5%	17.9%
Return on Equity	13.8%	17.5%	12.9%	10.8%	6.7%	-4.1%	19.0%	22.6%	23.1%
Per Share Data									
Book Value/Share	\$6.25	\$7.20	\$6.80	\$7.39	\$6.94	\$6.88	\$6.95	\$7.38	\$7.55
Tangible Book Value/Share	\$5.59	\$6.54	\$6.12	\$6.60	\$6.24	\$6.18	\$6.16	\$6.60	\$6.77
Cash/Share (incl long-term)	\$2.45	\$3.50	\$2.63	\$3.34	\$2.40	\$2.67	\$3.08	\$3.34	\$3.80
Cash/Share (net, incl long-term)	\$2.11	\$3.14	\$2.28	\$2.95	\$2.19	\$2.46	\$2.69	\$2.95	\$3.38
Earnings/Share	\$0.86	\$1.18	\$0.92	\$0.77	\$0.12	(\$0.07)	\$0.33	\$0.40	\$0.43

Intel Corporation

Sales Analysis

dollars in millions
* restated

	2007	2008	2009	2007				2008				2009				2010
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
By Territory																
Revenue																
Asia-Pacific	19,432	19,044	19,342	4,432	4,457	5,205	5,338	4,788	4,805	5,389	4,062	3,647	4,409	5,322	5,964	5,888
Americas	7,715	7,443	7,118	1,727	1,823	2,067	2,098	2,016	1,985	1,887	1,555	1,510	1,698	1,822	2,088	1,906
EMEA	7,262	7,116	5,278	1,722	1,485	1,824	2,231	1,863	1,741	1,883	1,629	1,273	1,153	1,328	1,524	1,404
Japan	3,925	3,983	3,389	971	915	994	1,045	1,006	939	1,058	980	715	764	917	993	1,101
Total	38,334	37,586	35,127	8,852	8,680	10,090	10,712	9,673	9,470	10,217	8,226	7,145	8,024	9,389	10,569	10,299
Revenue Percent																
Asia-Pacific %	50.7%	50.7%	55.1%	50.1%	51.3%	51.6%	49.8%	49.5%	50.7%	52.7%	49.4%	51.0%	54.9%	56.7%	56.4%	57.2%
Americas %	20.1%	19.8%	20.3%	19.5%	21.0%	20.5%	19.6%	20.8%	21.0%	18.5%	18.9%	21.1%	21.2%	19.4%	19.8%	18.5%
EMEA %	18.9%	18.9%	15.0%	19.5%	17.1%	18.1%	20.8%	19.3%	18.4%	18.4%	19.8%	17.8%	14.4%	14.1%	14.4%	13.6%
Japan %	10.2%	10.6%	9.6%	11.0%	10.5%	9.9%	9.8%	10.4%	9.9%	10.4%	11.9%	10.0%	9.5%	9.8%	9.4%	10.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Growth Rate																
Asia-Pacific growth	11.2%	-2.0%	1.6%	-8.7%	0.6%	16.8%	2.6%	-10.3%	0.4%	12.2%	-24.6%	-10.2%	20.9%	20.7%	12.1%	-1.3%
Americas growth	2.7%	-3.5%	-4.4%	-13.8%	5.6%	13.4%	1.5%	-3.9%	-1.5%	-4.9%	-17.6%	-2.9%	12.5%	7.3%	14.6%	-8.7%
EMEA growth	10.2%	-2.0%	-25.8%	-9.4%	-13.8%	22.8%	22.3%	-16.5%	-6.5%	8.2%	-13.5%	-21.9%	-9.4%	15.2%	14.8%	-7.9%
Japan growth	3.1%	1.5%	-14.9%	3.7%	-5.8%	8.6%	5.1%	-3.7%	-6.7%	12.7%	-7.4%	-27.0%	6.9%	20.0%	8.3%	10.9%
Total	8.3%	-2.0%	-6.5%	-8.7%	-1.9%	16.2%	6.2%	-9.7%	-2.1%	7.9%	-19.5%	-13.1%	12.3%	17.0%	12.6%	-2.6%
By Product Line-NEW																
PC Client Group																
Microprocessors		21,516	19,914							4,844	4,249		5,217	5,881	5,913	
Chipset, mbd, other		6,451	6,262							1,305	1,112		1,839	1,877	1,761	
Total Revenue	-	27,967	26,176	-	-	-	-	-	-	6,149	5,361	-	7,056	7,758	7,674	
Operating Income		9,419	7,587							1,733	701		2,246	3,340	3,143	
operating margin		33.7%	29.0%							28.2%	13.1%		31.8%	43.1%	41.0%	
Microprocessor growth			-7.4%								-12.3%			12.7%	0.5%	
chipset growth			-2.9%								-14.8%			2.1%	-6.2%	
Subtotal Rev growth			-6.4%								-12.8%			9.9%	-1.1%	
Data Center Group																
Microprocessors		5,126	5,301							1,197	1,012		1,378	1,703	1,552	
Chipsets, other		1,464	1,147							294	252		298	323	319	
Total Revenue	-	6,590	6,448	-	-	-	-	-	-	1,491	1,264	-	1,676	2,026	1,871	
Operating Income		2,135	2,299							443	266		627	972	835	
operating margin		32.4%	35.7%							29.7%	21.0%		37.4%	48.0%	44.6%	
Microprocessor growth			3.4%								-15.5%			23.6%	-8.9%	
Chipset growth			-21.7%								-14.3%			8.4%	-1.2%	
Subtotal Rev growth			-2.2%								-15.2%			20.9%	-7.7%	
Other Intel Architecture																
Revenue		1,763	1,402							371	326		338	410	375	
Revenue growth			-20.5%								-12.1%			21.3%	-8.5%	
Operating Income		(63)	(181)							(69)	(76)		(54)	12	(29)	
Other/Corporate																
Revenue		1,266	1,101							215	194		319	375	379	
Revenue growth			-13.0%								-9.8%			17.6%	1.1%	
Operating Income		(2,537)	(3,994)							(272)	(244)		(166)	(1,805)	(501)	
By Product Line-OLD																
Digital Enterprise																
Microprocessors	15,945	16,078		3,740	3,610	4,106	4,489	4,236	4,108	4,069	3,665	3,258	3,418	3,873		
Chipset, mbd, other	5,359	4,554		1,254	1,227	1,406	1,472	1,205	1,265	1,249	835	751	886	1,040		
Total Revenue	21,304	20,632		4,994	4,837	5,512	5,961	5,441	5,373	5,318	4,500	4,009	4,304	4,913		
Operating Income	5,294	6,461		942	793	1,378	2,181	1,763	1,710	1,766	1,222	703	917	1,512		
operating margin	24.8%	31.3%		18.9%	16.4%	25.0%	36.6%	32.4%	31.8%	33.2%	27.2%	17.5%	21.3%	30.8%		
Microprocessor growth	9.2%	0.8%		-3.0%	-3.5%	13.7%	9.3%	-5.6%	-3.0%	-0.9%	-9.9%	-11.1%	4.9%	13.3%		
chipset growth	1.7%	-15.0%		-4.1%	-2.2%	14.6%	4.7%	-18.1%	5.0%	-1.3%	-33.1%	-10.1%	18.0%	17.4%		
Subtotal Rev growth	7.2%	-3.2%		-3.3%	-3.1%	14.0%	8.1%	-8.7%	-1.2%	-1.0%	-15.4%	-10.9%	7.4%	14.1%		
Mobility																
Microprocessors	10,660	11,439		2,441	2,398	2,832	2,989	2,726	2,742	3,387	2,584	2,188	2,554	2,924		
Chipsets, other	4,021	4,209		866	898	1,139	1,118	943	1,055	1,294	917	726	927	1,207		
Total Revenue	14,681	15,648		3,307	3,296	3,971	4,107	3,669	3,797	4,681	3,501	2,914	3,481	4,131		
Operating Income	5,612	5,209		1,382	1,252	1,294	1,684	1,166	1,251	1,859	933	267	803	1,350		
operating margin	38.2%	33.3%		41.8%	38.0%	32.6%	41.0%	31.8%	32.9%	39.7%	26.6%	9.2%	23.1%	32.7%		
Microprocessor growth	15.7%	7.3%		-8.5%	-1.8%	18.1%	5.5%	-8.8%	0.6%	23.5%	-23.7%	-15.3%	16.7%	14.5%		
Chipset growth	29.8%	4.7%		-6.4%	3.7%	26.8%	-1.8%	-15.7%	11.9%	22.7%	-29.1%	-20.8%	27.7%	30.2%		
Subtotal Rev growth	19.3%	6.6%		-8.0%	-0.3%	20.5%	3.4%	-10.7%	3.5%	23.3%	-25.2%	-16.8%	19.5%	18.7%		
Flash																
Revenue	2,102			469	494	553	586	497								
Revenue growth	-2.8%			-18.6%	5.3%	11.9%	6.0%	-15.2%								
Operating Income	(716)			(283)	(291)	(142)										
Other/Corporate																
Revenue	2,349	1,306		551	547	607	644	563	300	218	225	222	239	345		
Revenue growth	127.2%	-44.4%		51.8%	-0.7%	11.0%	6.1%	-12.6%	-46.7%	-27.3%	3.2%	-1.3%	7.7%	44.4%		
Operating Income	(2,690)	(2,708)		(649)	(695)	(528)	(818)	(867)	(706)	(519)	(616)	(300)	(1,732)	(283)		

Intel Corporation

Valuation

Relative Valuation

Company	Ticker	Price 4/13/10	52-Week		CY EPS				CY P/E				Shares (mil)	CAP (\$ mil)	Price-Sales			FY Ends	Qtr Div/sh	Div Yield	
			Low	High	2008	2009	2010	2011	2008	2009	2010	2011			TTM	Cur FY	Nxt FY				
Intel *	INTC	22.77	14.96	22.75	0.92	1.17	1.83	1.88	24.8	19.5	12.4	12.1	5,681	129,356	3.4	3.0	2.8	Dec	\$0.16	2.8%	
Cisco Systems	CSCO	26.44	17.13	26.85	1.51	1.37	1.61	1.82	17.5	19.3	16.4	14.5	5,862	154,991	4.4	3.9	3.5	Jul			
Dell Computer	DELL	15.72	10.03	17.26	1.35	1.05	1.22	1.43	11.6	15.0	12.9	11.0	1,971	30,984	0.6	0.5	0.5	Jan			
General Electric	GE	18.95	10.50	18.98	1.78	1.03	1.02	1.24	10.6	18.4	18.6	15.3	10,656	201,931	1.3	1.3	1.3	Dec	\$0.10	2.1%	
Hewlett Packard	HPQ	53.78	33.40	54.00	3.80	3.99	4.56	4.96	14.2	13.5	11.8	10.8	2,427	130,524	1.1	1.1	1.0	Oct	\$0.08	0.6%	
IBM	IBM	129.03	96.44	134.25	8.93	10.01	11.11	12.11	14.4	12.9	11.6	10.7	1,341	172,991	1.8	1.7	1.7	Dec	\$0.55	1.7%	
Microsoft	MSFT	30.45	18.47	31.50	1.88	1.73	1.93	2.39	16.2	17.6	15.8	12.8	8,951	272,558	4.6	4.4	4.1	Jun	\$0.13	1.7%	
Average									14.1	16.1	14.5	12.5				2.3	2.2	2.0			

Relative Valuation

Company	Ticker	Price 4/13/10	52-Week		CY EPS				CY P/E				Shares (mil)	CAP (\$ mil)	Price-Sales			FY Ends	Qtr Div/sh	Div Yield	
			Low	High	2008	2009	2010	2011	2008	2009	2010	2011			TTM	Cur FY	Nxt FY				
Intel *	INTC	22.77	14.96	22.75	0.92	1.17	1.83	1.88	24.8	19.5	12.4	12.1	5,681	129,356	3.4	3.0	2.8	Dec	\$0.16	2.8%	
Advanced Micro Devices	AMD	9.56	3.17	10.04	-1.96	0.45	-0.17	0.15	NM	21.2	NM	63.7	791	7,562	1.4	1.2	1.1	Dec			
Micron Technology *	MU	10.76	4.14	11.34	-1.72	-1.26	1.39	1.17	NM	NM	7.7	9.2	1,005	10,817	1.8	1.3	1.1	Aug			
National Semiconductor *	NSM	15.03	11.32	16.20	1.42	0.33	1.28	1.28	10.6	45.5	11.7	11.7	243	3,645	2.8	2.6	2.3	May	\$0.08	2.1%	
Texas Instruments *	TXN	25.87	16.57	27.00	1.58	1.26	2.14	2.37	16.4	20.5	12.1	10.9	1,257	32,519	3.1	2.5	2.3	Dec	\$0.12	1.9%	
STMicroelectronics	STM	10.33	5.87	10.30	0.44	-0.72	0.48	0.77	23.5	NM	21.5	13.4	878	9,073	1.1	0.9	0.9	Dec-ADR	\$0.03	1.2%	
Average									16.8	29.1	13.3	21.8				2.0	1.7	1.5			

* Tokeneke estimate
Source: consensus as of 4/12/10

Historical Valuation

Company	Ticker	Price 4/13/10	Trailing 12-month								
			Price/Earnings		Price/Sales		Price/Book				
			Current	Historical*	Current	Historical*	Current	Historical*			
Intel	INTC	\$22.77	15.3		3.4		3.0				
Average			24.0		4.8		4.8				
High			65.4		15.7		14.4				
Low			9.9		1.6		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 Fahnstock & 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.

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