Intel Corporation INTC [Nasdaq] | ★★★

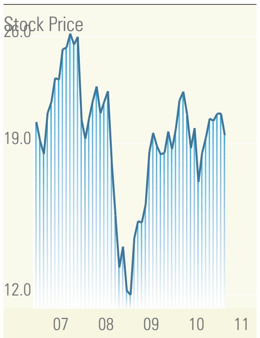
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
19.86 USD	23.00 USD	16.10 USD	32.20 USD	Medium	Wide	B	AA	Semiconductors

Intel Reports Spectacular 1Q

by Andy Ng
Senior Stock Analyst
Analysts covering this company do not own its stock.

Pricing data through April 19, 2011.
Rating updated as of April 19, 2011.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note Apr. 20, 2011

Intel reported spectacular first-quarter results as it began to reap the benefits of its new Sandy Bridge processors. Revenue was a record $12.8 billion, up 12% sequentially and 25% year over year, propelled by robust spending on computers from enterprises and emerging markets, which helped drive demand for both PC and server microprocessors. Although the results included two acquisitions (Infineon's wireless chip business and McAfee) that closed and contributed about $500 million in sales during the quarter, Intel would have posted excellent results even if these purchases were excluded. Aside from strength in corporate and emerging market IT spending, the firm benefited from its latest Sandy Bridge chips, which helped boost average selling prices in the quarter. Given Intel's stellar results, it appears the firm has overcome any problems that arose after an error in the chipsets that support Sandy Bridge was discovered in January. The gross margin was 61.4% versus 64.6% in the fourth quarter. Additional costs needed to repair and replace the problematic chipsets affected the gross margin in the first quarter and caused Intel to revise its fourth-quarter gross margin downward from the 67.5% that had been previously reported. Operating income came in at $4.2 billion for the quarter.

For the second quarter, management expects revenue of $12.3 billion-$13.3 billion. The forecast takes into account a full quarter of sales from Intel's recent acquisitions, which are expected to contribute about $1 billion to revenue. Intel said it did not see any unusual changes to processor demand from the tragedy in Japan and doesn't anticipate any supply-chain disruptions. These latest results show that the firm continues to fire on all cylinders, and management remains optimistic about PC unit growth in 2011. We continue to believe that server processors will be a key theme for Intel in the upcoming years. Although the firm has had limited success so far in getting its Atom chips designed into tablets and smartphones, the rapid proliferation of these mobile gadgets will require substantial buildouts of Internet infrastructure, which in turn should drive demand for server processors from Intel.

Thesis Jan. 18, 2011

Intel holds long-term advantages over smaller rival Advanced Micro Devices in the microprocessor industry. While there have been rising fears that Intel may have trouble competing against emerging processor design firm ARM, we believe such panic has been blown out of proportion.

Intel is the dominant force in the roughly $30 billion computer processor market. It has benefited tremendously from the proliferation of personal computers in the past few decades. Intel has long held the lead in microprocessor technology and performance, while AMD has mostly been an also-ran. Although AMD has periodically emerged as a threat, such occurrences are few and far between. After being caught off-guard several years ago when AMD narrowed the competitive gap between the two firms, Intel has gone on an impressive streak of out-innovating its smaller foe while reasserting its stranglehold on the microprocessor market.

The runaway success that Intel has had in the processor market can be traced back to the firm's economic moat. As the world's largest semiconductor company, Intel has a massive research and development budget that is unmatched. In addition, the firm has the financial resources to invest in cutting-edge semiconductor manufacturing technologies. These advantages enable Intel to push processor performance and lower manufacturing costs at a much faster pace than AMD. Although AMD has shown it can trump Intel in a particular processor generation, it has never been able to maintain its lead in successive generations.

Intel continues to go full throttle and has laid out aggressive plans to introduce new chip architectures every two years, in an effort to widen its lead over AMD in the processor performance race. The firm recently launched its Sandy Bridge chips, which combine both computer and graphics processors onto the same silicon, and will further push the envelope of semiconductor fabrication

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Intel Corporation	USD	108,992	43,623	15,588	11,464
Advanced Micro Devices	USD	5,667	6,494	848	471

Morningstar data as of April 19, 2011.

technologies later this year, as it will begin to ramp up manufacturing of cutting-edge 22-nanometer (circuit size) chips.

We believe the biggest obstacle facing Intel in the coming years is the maturation of the PC market, which could pose challenges for growth. In addition, the firm has begun to see the emergence of a new competitor in ARM, whose processor designs populate most smartphones and tablets. The line between PCs and mobile devices has been blurring, with ARM attempting to move upstream, while Intel tries to extend its presence downstream with its Atom chips. The emergence of the tablet has provided a battleground for the two, and ARM has been much more successful than Intel so far.

Although there is the risk that ARM-based tablets will eventually become powerful enough to cannibalize low-end PCs, which in turn would cut into Intel's processor sales, we believe ARM's threat to Intel has been overblown. ARM has been highly successful in chips for mobile devices and tablets because of the low power consumption of its designs, something that Intel has been unable to match despite being able to offer higher processor performance. Nonetheless, we expect Intel's Atom processors to become much more competitive on the power efficiency front in the next couple of years, which should allow the firm to achieve design wins in tablets and smartphones and ultimately encroach upon ARM's turf.

No matter how successful Intel ends up faring against ARM in tablets, we believe the mass proliferation of these devices will ultimately be beneficial to Intel. The emergence of tablets is part of the trend toward cloud computing, where computing tasks are offloaded onto the "cloud" and users access the cloud with an interface such as a tablet. As adoption of tablets and other mobile devices continues to rise, it will require substantial server build-outs to create the infrastructure necessary for the cloud. This will provide significant long-term tailwinds for the growth of Intel's server processor segment, which is the firm's most lucrative business.

Intel's planned acquisition of antivirus and security software maker McAfee for $7.7 billion, announced in August, caught many by surprise, but there is a strategic rationale behind the deal. Intel believes that security is becoming increasingly important with the continued growth of Internet connected devices, including smartphones, tablets, and set-top boxes. With McAfee, the firm plans to add security features to its chips and hardware, which when integrated with software, will provide more effective security solutions. Intel also has the opportunity to integrate McAfee's security software into its desktop and notebook chips. This latest move will provide another opportunity for the firm to enhance its products in a bid to differentiate itself from AMD and ARM.

Valuation, Growth and Profitability

Our fair value estimate, which takes the pending McAfee and Infineon wireless chip business acquisitions into account, is $23 per share. Intel reported record results in 2010, as the firm benefited from robust PC demand after a slowdown in 2009. In our model, we forecast that revenue will grow 6% in 2011, excluding the planned acquisitions of McAfee and Infineon's wireless chip unit. We expect McAfee to contribute more than $2 billion in additional sales, while we project that Infineon's wireless chip business will provide Intel with roughly another $1 billion in revenue in 2011. While we expect a cyclical downturn in 2012, we think Intel can grow in the upper single digits over the long run. Our assumptions are based on our projections for the processor market as well as other segments, including chipsets, motherboards, and flash memory. We believe the firm's server processor segment will be Intel's fastest-growing business, as the trend toward cloud computing will require substantial server build-outs. Although Intel has been widening its chip performance lead compared with AMD in recent years, we think that AMD will be much more competitive in 2011, thanks to new products, and we project that Intel will lose some market share to its smaller rival in the near term. Nonetheless, we believe Intel's dominant position over AMD remains intact over the long run. Profitability has improved over the past several years, partly as a result of the firm's cost-cutting work. After posting superb profitability in 2010, with operating margin coming in at over 36%, we think Intel's operating margin will stay at a similar level in 2011. However, we forecast that operating margins will trend toward the mid-20s over the long term.

Risk

The semiconductor industry is cyclical, which causes fluctuations in Intel's financial performance. Intel must hold onto its technology lead in order to maintain its position as the behemoth of the microprocessor market. Failure to do so would result in share loss to AMD.

Bulls Say

- Intel is the largest semiconductor company in the world. The firm has sustained its position at the forefront of technology by investing heavily in R&D.
- The firm holds roughly four fifths of the microprocessor market after gaining some share back from AMD.
- Intel has an immense budget for capital expenditures, allowing it to maintain the most cutting-edge semiconductor manufacturing technologies in the world.
- Intel's platform strategy, in which processors are bundled with chipsets, allows the firm to incorporate more features into its products.
- The firm subsidizes marketing efforts by customers when they highlight the Intel brand. As a result, it benefits from powerful brand recognition.

Bears Say

- Growth of the PC industry has slowed from the heady rates of the 1990s. As a result, Intel's opportunities to expand may be limited.
- Intel must successfully maintain its technology lead in the processor market. Any missteps by the firm could cause market share loss to AMD.
- AMD's purchase of ATI in 2006 has given Intel's smaller rival the know-how and technology to offer platform solutions as well.
- ARM-based processors power most of the mobile devices, including smartphones and tablets, on the market today. The firm is becoming a bigger competitive threat to Intel.

Financial Overview

Financial Health: Intel is in excellent financial shape. At the end of 2010, the firm had $17.0 billion in cash and short-term investments compared with $2.1 billion in debt.

Company Overview

Profile: Intel is the largest chipmaker in the world. It develops and manufactures microprocessors and platform solutions for the global personal computer market. Intel pioneered the x86 architecture for microprocessors.

Management: President and CEO Paul Otellini became CEO in 2005. Otellini has been with Intel since 1974; before taking the helm, he had been president and COO since 2002. Stacy Smith took over as CFO from Andy

Bryant in October 2007. Smith joined Intel in 1988 and has held various positions, including finance, information technology, and sales and marketing roles, at the company. Bryant remains at Intel and now holds the position of chief administrative officer. Jane Shaw, a retired pharmaceutical executive, serves as chairman. We like the separation of the chairman and CEO positions. The outside director compensation consists of cash and an equity-based component. We don't like the company's poison-pill provisions, which basically allow the board to adopt antitakeover arrangements without shareholder approval.

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Jan. 31, 2011

Intel Finds Error in New Chipsets, Provides Updated Outlook

On Monday, Intel announced that it has identified an error in a new chipset that supports its latest Sandy Bridge processors. It also provided a revised outlook for 2011, which now incorporates the forecast contributions from the upcoming McAfee acquisition and the now-completed purchase of Infineon's wireless chip business. We do not anticipate any changes to our fair value estimate.

The chipset issue was discovered in Intel's Series 6 chipsets, where in some cases the Serial-ATA ports may degrade over time and could affect the functionality of SATA-linked devices such as hard drives and DVD drives. While the firm had only been shipping the chipsets for a limited time and is now manufacturing a corrected version of the chip, it expects that revenue will be $300 million lower than management's prior forecast in the first quarter, but full-year 2011 sales will not be materially affected. Although the chipset problems will have an effect on the supply chain as production ramps up for PCs incorporating the new Sandy Bridge processors, management expects any effects on Sandy Bridge sales will be limited and that Intel should be able to recover most of the revenue that may be lost by the delays in the second quarter. In addition, the firm will take a charge of $700 million to repair and replace problematic chipsets and systems that have already shipped, raising the cost of goods sold in the fourth and first quarters. As a result, the fourth-quarter gross margin will be about 4 percentage points lower than the previously reported 67.5%, and the first-quarter gross margin will be 2 percentage points lower than the prior forecast of 64%.

Additionally, Intel announced that its acquisition of Infineon's wireless chip unit is now complete and that the McAfee deal should close by the end of the first quarter.

The firm provided an updated outlook, which incorporates these acquisitions and the effects of the chipset problems. For the first quarter, management now expects sales of $11.3 billion-$12.1 billion and a gross margin of about 61%, versus a prior outlook of revenue of $11.1 billion-$11.9 billion and a gross margin of 64%. For full-year 2011, it forecasts revenue to grow in the mid- to high teens year over year and the gross margin to be 63%, compared with the prior outlook of 10% sales growth and a 65% gross margin.

Jan. 13, 2011

Strong Enterprise Technology Spending Drives Intel's Record 4Q

Intel reported solid fourth-quarter results, as strong enterprise technology spending helped drive demand for processors during the quarter. Fourth-quarter revenue came in at $11.5 billion, up 3% sequentially and 8% year over year, which was an all-time quarterly record for the firm. Although Intel noted that PC purchases by consumers have remained soft since the middle of 2010, robust corporate IT spending helped drive demand for Intel's microprocessors in the quarter. Demand for chips used in servers was particularly strong, as that segment saw sales grow 15% quarter over quarter to $2.5 billion. In the fourth quarter, Intel launched its new Sandy Bridge processors, which, when combined with a richer product mix related to enterprise demand, helped boost gross margin to 67.5%, an increase from 65.9% in the third quarter. Operating income came in at $4.3 billion, up from $4.1 billion.

For the upcoming first quarter, management expects revenue will come in between $11.1 billion and $11.9 billion, excluding the effects of any upcoming acquisitions. While the revenue line will see some benefit from an extra week next quarter, Intel also expects to see a sales boost from the new Sandy Bridge product line. In addition, management anticipates continued robust processor demand in 2011 and currently forecasts revenue growth of 10% year over year. While we think that may be on the optimistic side, we expect business conditions for Intel to remain healthy for the foreseeable future as corporations continue to upgrade their PCs and technology infrastructures.

A lot of concerns have arisen recently over the threat of ARM to Intel, but we believe they are overblown. ARM certainly has had plenty of success in smartphones and tablets, as almost all processors that power those mobile devices are based on ARM chip designs. However, we think the idea of an ARM processor powering a full-fledged computer remains far-fetched. Although the risk of ARM-based tablets eventually cannibalizing low-end PCs that incorporate x86 processors from Intel is a possibility, Intel is not standing still. The low power consumption of ARM chips has left Intel at a disadvantage in the mobile device chip space, but we expect Intel's Atom chips to become much more power-efficient and competitive over the next several years. Further, the rise of tablets is part of the larger cloud computing theme, where the bulk of computing tasks are offloaded onto the "cloud" and users

Analyst Notes (continued)

access the cloud via cheap low-power devices, such as tablets. However Intel ends up doing in the tablet chip segment, proliferation of tablets will require substantial build-outs of the cloud infrastructure, which in turn will drive demand for server processors, Intel's most lucrative business. If the fourth quarter is any indication, this trend may already have begun, given the robust results in the firm's server chip segment.

Jan. 11, 2011

Intel and Nvidia Announce Settlement

On Monday, Intel agreed to pay $1.5 billion over the next five years to Nvidia as the firms settled a legal dispute and entered into a new cross-licensing deal. The two firms had been in the midst of a legal battle, as there had been a disagreement behind a prior licensing pact that had allowed Nvidia to make chipsets that worked with Intel's processors. Under the new cross-license agreement, Intel will continue to have access to Nvidia's patents as Intel continues to enhance its graphics capabilities. Nvidia will gain access to some of Intel's patents, but not all of them.

While Intel has to shell out $1.5 billion in the deal, we think it makes sense for both sides. For Intel, graphics processors (GPUs) are playing an increasingly important role for the firm. With the shift toward integrating GPUs onto the same silicon as computer processors (CPUs), as Intel has done in its latest Sandy Bridge chips, the firm needs to enhance its graphics capabilities to better compete against Advanced Micro Devices, which has much stronger graphics expertise thanks to its ATI acquisition in 2006. Intel obviously considers Nvidia's patents to be valuable enough to its efforts in developing competitive GPUs that the firm is willing to pay to have continued access to them.

Nvidia will gain access to some of Intel's microprocessor patents, but not those covering Intel's x86 architecture, flash memory, and patents necessary for Nvidia to continue making chipsets for Intel's processors, a business that Nvidia had been winding down anyway. Nonetheless, Nvidia will gain technology that will come in handy as it embarks on "Project Denver," an initiative with ARM to develop an ARM-based CPU to compete against traditional x86 CPUs from Intel and AMD. It is necessary for Nvidia to develop its own computer processors, as integrated CPU-GPU chips from Intel and AMD will likely render Nvidia's main stand-alone graphics processor business obsolete down the road. By coming up with a CPU, Nvidia will eventually be able to offer its own CPU-GPU products. However, investors should keep in mind that "Project Denver" will be no easy task and any products that will come out of it are likely years away.

Intel has been showing a willingness recently to move past its string of legal disputes. In slightly over one year, the firm has announced settlements with AMD, the Federal Trade Commission, and now Nvidia. While we are maintaining our fair value estimate for Intel, we are placing Nvidia under review. Although the $1.5 billion settlement will certainly boost Nvidia's fair value, we are also revisiting our assumptions for the firm, as its Tegra 2 chips for tablets and smartphones appear to be gaining momentum with consumer electronics makers.

Jan. 07, 2011

Fears Surrounding Intel From Wintel Breakup Overblown

During Microsoft's keynote at the Consumer Electronics

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Analyst Notes (continued)

Show, the firm announced that it will make its next Windows operating system compatible with ARM-based processors. The move signals a significant departure from Microsoft's prior strategy of only providing Windows support for the x86 architecture, which has long been dominated by Intel.

We view the news as a slight negative for Intel, as it breaks the traditional Wintel alliance between Intel and Microsoft, but we believe the threat to the firm has been overblown by the media. The move by Microsoft is really being targeted at the tablet market, where ARM presently has a stronghold, and not at the PC segment, which is Intel's bread and butter. While ARM's processor designs have succeeded in low-end computing applications like smartphones and tablets, we think the idea of the firm's chips powering a traditional PC remains far-fetched for the time being, as ARM cannot offer the necessary performance to adequately power a full-fledged computer.

Nonetheless, the line between PCs and mobile devices continues to blur, with ARM attempting to move upstream, while Intel tries to extend its presence downstream with the Atom. The emergence of the tablet market has provided a battleground for the two, and ARM has so far been much more successful than Intel, partly because of the popularity of Apple's iPad. There is a real risk that tablets will eventually become powerful enough to cannibalize a meaningful segment of low-end PCs, and Microsoft's new direction for Windows makes it slightly easier for ARM-based tablets to do just that. However, Intel already has a tablet chip solution with its low-power Atom processors, and it can be argued that the firm thus long ago pre-empted Microsoft's latest move. Intel's x86 Atom chips already support non-Microsoft operating systems targeted at tablets, including Google's popular Android, making the firm less dependent on the success of Windows in the tablet market.

Therefore, Intel's success in tablets will ultimately come down to the capabilities of its own products. ARM has been highly successful in chips for mobile devices and tablets because of the low power consumption of its designs, something that Intel has been unable to match despite being able to offer higher processor performance. However, we expect Intel to become much more competitive in power efficiency over the next several years. In addition, Intel is not only on the defensive against ARM, but is on the offensive as well as it attempts to encroach on its competitor's traditional stronghold of smartphone processors.

Finally, the rise of the tablet is part of the larger move toward cloud computing, where computing tasks are offloaded onto "clouds" of servers and users access the clouds via cheap, low-powered devices such as tablets. Investors should keep in mind that no matter how well or poorly Intel ends up faring in tablets, mass proliferation of this class of devices will ultimately be beneficial to the firm, as it will require substantial server buildouts to create the supporting clouds, which in turn will drive significant demand growth for server processors, which is Intel's most lucrative segment.

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Intel Corporation INTC

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
43,623	108,992	Semiconductors	Technology

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Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★	19.86	23.00	Medium	Wide	B

per share prices in USD

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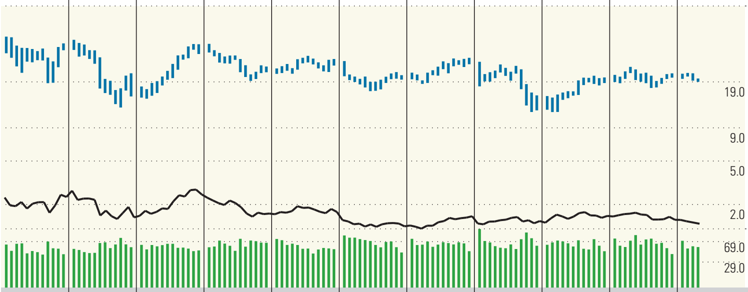
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	
38.59	36.78	34.51	34.60	28.84	26.63	27.99	26.34	21.27	24.37	22.21	Annual Price High
18.96	12.95	14.88	19.64	21.89	16.75	18.75	12.06	12.05	17.60	19.36	Low
											Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
24.25 - 17.60
10 Year High/Low
38.59 - 12.05
Bear-Market Rank
4 (10=worst)
Trading Volume Million

Growth Rates Compound Annual

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	24.2	4.4	2.4	2.6
Operating Income %	172.9	23.8	5.2	4.1
Earnings/Share %	161.0	19.4	7.5	2.9
Dividends %	12.5	11.9	14.5	24.6
Book Value/Share %	18.8	7.0	8.4	4.9
Stock Total Return %	-14.5	-1.3	2.9	-1.1
+/- Industry	-21.0	-6.7	3.3	-0.1
+/- Market	-24.1	0.6	2.9	-2.4

Profitability Analysis

Grade: B	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	25.2	16.1	1.1	22.6
Return on Assets %	19.7	12.4	0.8	8.6
Fixed Asset Turns	2.5	2.2	1.4	7.3
Inventory Turns	4.5	4.7	3.7	14.5
Revenue/Employee USD K	528.8	472.3*	—	941.1
Gross Margin %	65.3	56.0	50.5	40.2
Operating Margin %	35.7	22.6	20.8	14.7
Net Margin %	26.3	17.1	1.8	10.0
Free Cash Flow/Rev %	26.3	18.8	17.7	0.1
R&D/Rev %	15.1	0.2	—	9.8

Financial Position

Grade: A	12-09 USD Mil	12-10 USD Mil
Cash	3987	5498
Inventories	2935	3757
Receivables	2273	2867
Current Assets	21157	31611
Fixed Assets	17225	17899
Intangibles	4421	4531
Total Assets	53095	63186
Payables	1969	2290
Short-Term Debt	172	38
Current Liabilities	7591	9327
Long-Term Debt	2049	2077
Total Liabilities	11391	13756
Total Equity	41704	49430

Stock Performance

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
4.9	-50.2	106.4	-26.5	8.1	-17.3	33.9	-43.0	43.0	6.2	-4.7	Total Return %
17.9	-26.8	80.0	-35.5	5.1	-30.9	30.4	-4.5	19.6	-6.6	-9.1	+/- Market
16.8	2.6	18.8	-6.2	-2.5	-11.7	29.6	1.9	-22.3	-9.4	-4.8	+/- Industry
0.3	0.5	0.3	0.7	1.3	2.0	1.7	3.7	2.8	3.0	3.3	Dividend Yield %
211092	103151	209351	147895	150484	116762	155881	81539	112669	115896	108992	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
26539	26764	30141	34209	38826	35382	38334	37586	35127	43623	43623	Revenue USD Mil
49.2	49.8	56.7	57.7	59.4	51.5	51.9	55.5	55.7	65.3	65.3	Gross Margin %
2256	4382	7533	10130	12090	5652	8216	8954	5711	15588	15588	Oper Income USD Mil
8.5	16.4	25.0	29.6	31.1	16.0	21.4	23.8	16.3	35.7	35.7	Operating Margin %
1291	3117	5641	7516	8664	5044	6976	5292	4369	11464	11464	Net Income USD Mil
0.19	0.46	0.85	1.16	1.40	0.86	1.18	0.92	0.77	2.01	2.01	Earnings Per Share USD
0.08	0.08	0.08	0.16	0.32	0.40	0.45	0.55	0.56	0.63	0.63	Dividends USD
6879	6759	6621	6494	6178	5880	5936	5748	5645	5696	5696	Shares Mil
5.34	5.35	5.79	6.10	6.00	6.37	7.31	7.03	7.55	8.97	9.01	Book Value Per Share USD
8654	9129	11515	13119	14823	10620	12625	10926	11170	16692	16692	Oper Cash Flow USD Mil
-7309	-4703	-3656	-3843	-5818	-5779	-5000	-5197	-4515	-5207	-5207	Cap Spending USD Mil
1345	4426	7859	9276	9005	4841	7625	5729	6655	11485	11485	Free Cash Flow USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
2.8	7.0	12.4	15.8	18.0	10.4	13.4	9.9	8.4	19.7	19.7	Return on Assets %
3.5	8.7	15.4	19.7	23.2	13.8	17.6	12.9	10.8	25.2	25.2	Return on Equity %
4.9	11.6	18.7	22.0	22.3	14.3	18.2	14.1	12.4	26.3	26.3	Net Margin %
0.57	0.60	0.66	0.72	0.81	0.73	0.74	0.71	0.68	0.75	0.75	Asset Turnover
1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	12-10	Financial Health
11063	12330	16003	16052	11960	9766	15314	12053	13566	22284	22284	Working Capital USD Mil
1050	929	936	703	2106	1848	1980	1886	2049	2077	2077	Long-Term Debt USD Mil
35830	35468	37846	38579	36182	36752	42762	39088	41704	49430	49430	Total Equity USD Mil
0.03	0.03	0.02	0.02	0.06	0.05	0.05	0.05	0.05	0.04	0.04	Debt/Equity

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
—	33.9	37.7	20.2	17.8	23.5	22.6	15.9	26.5	10.5	9.9	Price/Earnings
—	—	—	—	—	—	—	—	—	0.6	0.6	P/E vs. Market
8.2	3.9	7.0	4.4	4.0	3.4	4.1	2.2	3.3	2.8	2.6	Price/Sales
5.9	2.9	5.5	3.8	4.2	3.2	3.6	2.1	2.7	2.3	2.2	Price/Book
25.0	11.5	18.4	11.6	10.5	11.3	12.5	7.7	10.3	7.2	6.8	Price/Cash Flow

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	9.9	19.8	18.2	16.3
Forward P/E	9.0	—	—	13.3
Price/Cash Flow	6.8	9.8	10.7	8.4
Price/Free Cash Flow	9.8	17.6	16.3	17.9
Dividend Yield %	3.3	—	1.8	1.8
Price/Book	2.2	2.8	1.2	2.2
Price/Sales	2.6	3.2	2.9	1.4
PEG Ratio	0.8	—	—	1.7

Quarterly Results

Revenue USD Mil	Mar 10	Jun 10	Sep 10	Dec 10
Most Recent Period	10299.0	10765.0	11102.0	11457.0
Prior Year Period	7145.0	8024.0	9389.0	10569.0

Rev Growth %	Mar 10	Jun 10	Sep 10	Dec 10
Most Recent Period	44.1	34.2	18.2	8.4
Prior Year Period	-26.1	-15.3	-8.1	28.5

Earnings Per Share USD	Mar 10	Jun 10	Sep 10	Dec 10
Most Recent Period	0.43	0.51	0.52	0.56
Prior Year Period	0.11	-0.07	0.33	0.40

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Intel Corporation	108992	43623	9.9	25.2
Advanced Micro Devic	5667	6494	12.9	56.7

Major Fund Holders

	% of shares
Fidelity Spartan 500 Index Inv	0.36
Fidelity Growth Company	0.29
Eaton Vance Tx-Mgd Growth 1.0	0.20

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis →	**Economic Moat™ Rating** →	Company Valuation →	**Fair Value Estimate** →	Uncertainty Assessment →	★★★★★	
Analyst conducts company and industry research: • Management interviews • Conference calls • Trade-show visits • Competitor, supplier, distributor, and customer interviews	The depth of the firm's competitive advantage is rated: • None • Narrow • Wide	Analyst considers company financial statements and competitive position to forecast future cash flows. Assumptions are input into a discounted cash-flow model.	DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.	An uncertainty assessment establishes the margin of safety required for the stock rating.	★ ★★ ★★★ ★★★★ ★★★★★	The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty
To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades
We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."