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## Chip Inventory, Not Broad Economy, Drives Intel's Good News

SAN FRANCISCO -(Dow Jones)- Investors hoping Intel Corp.'s (INTC) better-than- expected quarter and bullish comments suggest the broader tech sector will see similarly strong results should reconsider: The giant chip maker is benefiting from the idiosyncracies of its inventory, rather than the broader economy.

On Tuesday, Intel posted \$8 billion in second-quarter revenue, well above the \$7.3 billion Wall Street expected and said third-quarter revenue would likely exceed expectations. Chief Executive Paul Otellini said the results were the company's strongest quarter-on-quarter growth since 1988 and mark "a clear expectation for a seasonally stronger second half."

Intel shares jumped 7% after hours on the news. Other tech stocks, including Hewlett Packard Co. (HPQ), Microsoft Corp. (MSFT) and Texas Instruments Inc. (TXN), rose after Otellini said the market for computers appeared to be rebounding.

Analysts cautioned that investors shouldn't use Santa Clara, Calif.-based Intel as a proxy for the broader technology market. They say Intel's performance, while encouraging, reflects the fact the company dramatically scaled back - and is now slowly ramping up - its inventory. It also benefitted from strong-but-temporary demand from Chinese consumers as opposed to a broad pick-up in the tech economy.

Intel's earnings come as the second-quarter reporting season begins in earnest, and software makers are largely expected to post lower sales this quarter as growth continues to slow internationally. While some companies have reported revenue has stabilized in the U.S., technology spending remains on track to fall 6% in 2009. Other technology companies have delivered mixed messages about their performance. For example, Dell Inc. (DELL) said this week it expects margins to contract as it offered discounts to entice corporate customers and watched consumers move to lower-priced products.

"We should be careful not to read too much into it," said Edward Snyder, an analyst at Charter Equity Research, of Intel's strong quarter. "I expect a lot of it to dissipate next quarter."

At the beginning of the year, Intel cut back production as it moved to deal with a glut of inventory and a deep recession that was crimping spending. Now, the world's largest chipmaker has sold off that excess and begun to ramp up chip production, a dynamic that fueled its better-than- expected revenue.

Intel's second-quarter performance also benefited from booming sales in Asia. Some analysts say that suggests Intel benefited as Chinese consumers spent money the government used to stimulate the economy.

Though signs of optimism have slowly emerged in some parts of the industry, the outlook for technology is still mixed. Database maker Oracle Corp. (ORCL) and networking equipment maker Cisco Systems Inc. (CSCO) both have said their customers are more optimistic about the economy. Video-game makers have seen three straight months of declines of sales of games and are facing a less- optimistic short-term outlook.

But Intel's news is likely to be read positively by investors and in particular is likely to bolster confidence in Microsoft Corp. (MSFT) which posted its first-ever revenue decline in the quarter ended March 31 because of weak PC sales. The majority of Microsoft's software is sold with computers built around Intel chips.

"Microsoft and Intel have a symbiotic relationship and drive one another," Unni Narayanan, the Chief Executive of Primary Global Research, said, adding that other positive catalysts, such as the imminent launch of Microsoft's Windows 7, would likely drive sales of both PCs and Microsoft's software. "I'm sure there will be a bounce in Microsoft's stock price," he said.

Microsoft shares rose 2.8% to \$23.76 in after-hours trading.

- By Jessica Hodgson