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Intel Corp.'s 2nd-quarter profits plummet

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Lower sales and higher operating costs led to a sharp decline in second-quarter profits Wednesday for Santa Clara, Calif.-based Intel Corp. It was the company's second quarter in a row with negative income growth and the worst decline in four years.

The world's biggest chipmaker, which has lost server business to Advance Micro Devices Inc., said net income for the quarter plunged 57 percent to \$885 million, or 15 cents per share. That compares with a profit of \$2.04 billion, or 33 cents per share, in the second quarter of 2005.

Revenue fell 13 percent to \$8 billion as the company slashed prices on inventory to make way for its new, more powerful and energy-efficient microprocessors.

"Average selling prices have fallen, eating into revenue," Andy Bryant, Intel's chief financial officer, said on a conference call Wednesday.

The company, which has 11,000 employees in Arizona, has begun shipping, ahead of schedule, its new Core microarchitecture chips for servers and desktop and mobile personal computers.

"In 2006, we are delivering the strongest product lineup in the industry, with many of these new products shipping ahead of schedule," Chief Executive Officer Paul Otellini said Wednesday.

But higher marketing, administrative, and research and development costs associated with the new products pushed operating expenses up 21 percent to \$3.1 billion for the quarter. That produced a dismal \$1.07 billion in operating income, down 60 percent from the \$2.65 billion reported in the second quarter of 2005.

Intel shares were down 11 cents at \$18.38 Wednesday in extended trading on the Nasdaq Stock Market. The stock is down 26 percent this year, making it the worst performer in the Dow Jones Industrial Average.

Jim Feldhan, president of Semico Research Corp. in Phoenix, said the results were no surprise.

"It's a little worse than the company's original estimates but in line with recent updates," he said.

He believes people will overlook the depressing quarter in light of the company's new chips. He noted there is pent-up demand for Intel's new chips but said competitors such as Advanced Micro Devices won't easily let go of the customers they've won from Intel.

Will Strauss, an industry analyst with Forward Concepts in Tempe, believes those customers may never be back.

"New chips go into new products," he said. "Those products shipped with AMD chips won't be replaced for a while."