National Semi F2Q Exceeds Guidance and Expectations

Bookings +17%, GM +420bp: Flat Guidance is Good for Seasonally Weak F3Q

Diluted Shares*(mil)* :	241.0
Market Cap*($mil)* :	$3,682
Avg Volume*(,000)* :	7,891
Net Cash/Share:	($1.82)
Quarter Dividend	$0.08

Closing Price 12/10/09
$15.28
Recommendation/Target
Hold/$18 from $16

fye May	FY09 *act*	FY10	FY11
Revenue*($mil)*	$1,460.4	$1,358.5	$1,467.6
EPS	$0.31	$0.68	$0.92
Price/Sales	2.5	2.7	2.5
Price/EPS	49.3	22.5	16.6

National Semiconductor is a leading supplier of power management and amplifier analog integrated circuits primarily to high-end cell phone handsets and a broad array of industrial markets. It is expanding into solar module and LED lighting power management markets.

Summary: November-ended F2Q10 revenue and EPS exceeded expectations due to broad based demand, favorable product mix, and accelerated cost savings. Revenue grew by 10%, bookings grew by 17%, and management guided for unseasonably strong flat revenues this holiday quarter. I am raising my estimates and increasing my 12-month target price, but retaining my Hold recommendation due to limited upside potential. My enthusiasm for the shares has significantly increased following recent sales and margin strength, although I remain skittish with respect to the timing and magnitude of longer term revenue growth.

NSM has the privilege of leading each earnings season by approximately four weeks due to its May-ending fiscal year. Its fiscal periods capture two of the three months of the calendar quarter, and offer the first view to investors of the actual performance of the prior quarter and guidance to the forthcoming one. However, the company's reputation as a leading indicator to industry business conditions has been somewhat corrupted due to the timing and profile of the current macroeconomic cycle, as well as the company's over-weighted exposure to Smart Phones.

F2Q Review: Sales of $344.6M grew by 9.6% and exceeded the high-end of guidance, while EPS of $0.20 exceeded consensus—although neither exceeded the high-end of published expectations. Revenue strength was broad based across a number of industrial markets and all geographies. Gross margin of 65.3% expanded by 420 basis points due to increased volume, favorable product mix, and accelerated restructuring activities that included a full quarter's benefit from the Chinese assembly facility restructuring and initial benefits from the forthcoming Texas fab closure. $16M in stock compensation included $3M in COGS, $4M in R&D and $9M in SG&A. Inventory is down by $7M; the favorable tax rate was due to foreign benefits and discrete items; cap ex approximated $13M; and cash up by $88M to $821.7M following a debt repayment of $16M and dividends of $18.9M. Distribution resales outpaced NSM's revenue growth and channel inventory fell to a very low 8-weeks.

	F2Q10					
FYE May, in millions	Estimate	Actual	EPS Impact	Guidance	Consensus	Range
Revenue	$335.0	$344.6	*$0.02*	$325-$340	$336.7	$330-$349
Revenue Growth	6.6%	9.6%		+3.4%+8.1%	7.1%	+5%+11%
Gross Margin	62.5%	65.3%	*$0.03*	62%-63%		
Operating Expenses	$142.5	$149.2	*($0.02)*	$140-$145		
Restruct/Impairment	$6	$1.8	*$0.01*	$6-$8		
Interest/Other	($16.0)	($12.6)		($13.5-$14.5)		
Tax Rate	29.5%	23.5%	*$0.02*	29%-30%		
Diluted Shares	238.8	241.0				
Diluted EPS	$0.13	$0.20	***$0.07***		$0.14	$0.09-$0.22

Bookings grew by 17% and turns were greater than expected in the high-20% range of orders, but are expected to come back down to a more normal 20% range this quarter. Bookings improved each month of the quarter. Utilization held steady at 46%, although back-end test and assembly scrambled at the end of the quarter to meet demand upside. Lead times are generally stable, although management admitted to isolated product shortages that are being handled rationally and without a sense of panic that leads to double ordering. Distribution resales at 60% of sales remain strong with no apparent inventory building there or anywhere else in the channel. Finally, COO Don Macleod has replaced 14-year CEO Brian Halla who will be retiring from his executive chairman role on the board of directors at the end of the fiscal year. I do not see this as a meaningful change given the extensive experience that Mr. Macleod has with both the executive management team and the company overall.

Industrial markets accounted for 40% of sales and grew by 17% lead by automotive but included medical, military and aerospace. Mobile markets at 30% were flat as handset strength in Europe and America offset weakness in Asia. NSM has seven major handset customers: the top 5 and then two smart phones. Both Korean customers did not grow last quarter, although they are not expected to decline this quarter. Networking and communication markets at 11-12% of sales grew by 11% on strength in China. Europe distribution grew the fastest at 30% across a broad range of industrial applications lead by automotive, while Asian and American resales grew by 10%. Japanese distribution grew by 13% from printers, copiers and gaming applications. Asia-Pacific distribution inventory at around 6 weeks is extremely low. Power management products accounted for 50% of sales and grew by 12% including Simple Switch offering that were up by 14% after the prior quarters 38% growth. The company introduced a web-based design tool for power supplies that supports 48 billion combinations of 21,000 parts from 110 manufactures to better support customers and distributor design efforts. Integrated power modules accounted for 10% of total sales with over 100 design wins across medical, avionics and broadcast video applications. Mobile audio products accounted for 10% of sales to MP3 and other portable consumer devices.

Growth Initiatives: Growth initiatives remain LEDs, energy (including solar power and electric vehicle battery management), and automotive. LED lighting sales doubled, albeit off a small base, with 70% of the business to China for street lights and automotive applications that management sees potential for $100M in annual sales in 3 years. LED backlights for notebooks and smart phones also did well, with new Android product ramps offsetting Korean handset customer weakness. Solar Magic reference designs are running at a few thousand units per quarter and NSM is approaching panel manufacturers directly and hopes to see the first Smart panel introduction 2HCY10. NSM boasts 25 parts in a new Audi with applications that include cameras, flat panel dashboards, safety, entertainment, navigation systems, gearbox, and LED headlights. The National 3.0 initiative for a long-term financial model remains 60/30/20 for gross margin, operating margin and ROIC, respectively.

Restructuring Continues: Target savings for the Arlington, Texas fab closure remains 400bps of gross margin beginning FY1Q11, although approximately 100bps of that was realized last quarter with the balance expected early next fiscal year. Operating expenses are at a normalized level now that business is recovering with certain projects off hold, compensation levels back to normal, customer visits and sales and marketing activities back to more normal, and headcount actually increased last quarter. NSM plans to convert its UK fab to 8-inch wafers from 6-inches over the next couple of quarters which is expected to reap both cost and capacity benefits.

Management Guidance: The holiday-infested F3Q ending February is traditionally a down period, but backlog strength of industrial markets is expected to offset typical seasonal weakness in handset and consumer markets. F3Q guidance includes: flat revenue; flat gross margin; R&D at $68-70M; SG&A at $78-80M; restructuring the Texas fab closure at $5-6M; stock compensation at $19M including $3M in COGS, $4M in R&D and $12M in SG&A; other expenses of $1M; interest expense at $14.5M; tax rate of 28-30%; and capital expenditures at $12-18M. Management is confident that it can drive revenue growth now that gross margins are in the high-60% range since it can now pursue certain higher volume opportunities providing incremental sales at 80% margin fall through that it would not have enjoyed earlier when margins and utilization were lower. Also, new growth initiatives in LEDs, energy and automotive carry favorable margins. The message at the shareholders meeting on September 25 included driving operating margins back to the high-20%/low-30% range.

Raising Estimates: My F3Q estimate is consistent with guidance and my expected revenue and earnings are increasing due to demonstrated sales and margin gains. However, operating margin benefits will depend on sales growth which I continue to remain skittish about in the current macroeconomic climate. Near-term business is robust, but how fast it reverts back to seasonal norms remains the question. My model assumes so after next quarter—which is admittedly conservative.

	F3Q10		FY10		FY11	
FYE May, in millions	Previous	Update	Previous	Update	Previous	Update
Revenue	$311.6	$344.6	$1,281.8	$1,358.5	$1,300.8	$1,467.6
Revenue Growth	-7.0%	0.0%	-12.2%	-7.0%	1.5%	8.0%
Gross Margin	61.0%	65.0%	61.4%	64.6%	62.8%	67.5%
Operating Expenses	$137.0	$148.0	$554.8	$584.5	$548	$606
Restruct/Impairment	$3	$6	$16	$14	$0	$0
Interest/Other	($15.0)	($15.5)	($57.9)	($55.5)	($60)	($62)
Tax Rate	30.0%	29.0%	28.0%	26.3%	30.0%	30.0%
Diluted Shares	239.9	241.8	239.4	240.9	244.1	246.0
Diluted EPS	$0.10	$0.16	$0.48	$0.68	$0.60	$0.92

Valuation Improves: Fundamental relative and intrinsic valuation metrics are specified on page 7 of this report. I am raising my 12-month target price to $18 from $16 based on 20-times earnings and 3-times sales for FY11, but am retaining my Hold recommendation due to limited upside potential from current price levels. My enthusiasm for the shares has significantly increased following recent sales and margin strength, although I remain skittish with respect to the timing and magnitude of longer term revenue growth.

GAAP EPS	**F3Q10**	**FY10**	**FY11**
Tokeneke-revised	*$0.16*	*$0.68*	*$0.92*
Tokeneke-previous	$0.10	$0.48	$0.60
Consensus-previous	$0.14	$0.59	$0.90
Highest Est-previous	$0.20	$0.78	$1.17
Lowest Est-previous	$0.09	$0.43	$0.70

Revenue			
Tokeneke-revised	*$344.6*	*$1,358.5*	*$1,467.6*
Tokeneke-previous	$311.6	$1,281.8	$1,300.8
Consensus-previous	$331.2	$1,330.0	$1,430.0
Highest Est-previous	$346.0	$1,360.0	$1,550.0
Lowest Est-previous	$311.8	$1,290.0	$1,360.0

—Dan K. Scovel
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Income Statement www.national.com

(dollars in thousands, except per share data) * restated

Fiscal year ends May

		FY2008					FY2009 act					FY2010 est					FY2011				
	FY07	Q1	Q2	Q3	Q4	FY08	Q1	Q2	Q3	Q4	FY09	Q1A	Q2A	Q3	Q4	FY10	Q1	Q2	Q3	Q4	FY11
Sales	1,929.9	471.5	499.0	453.4	462.0	1,885.9	465.6	421.6	292.4	280.8	1,460.4	314.4	344.6	344.6	354.9	1,358.5	362.0	380.1	357.3	368.1	1,467.6
COGS	757.7	174.6	177.8	161.7	157.4	671.5	158.4	144.2	124.3	117.2	544.1	122.2	119.6	120.6	118.9	481.3	117.7	123.5	116.1	119.6	477.0
Gross Profit	1,172.2	296.9	321.2	291.7	304.6	1,214.4	307.2	277.4	168.1	163.6	916.3	192.2	225.0	224.0	236.0	877.2	244.4	256.6	241.2	248.4	990.6
R&D	363.7	93.8	91.9	87.1	90.2	363.0	89.6	91.6	72.9	51.9	306.0	65.3	68.2	69.0	70.0	272.5	70.7	72.9	72.9	73.6	290.0
SG&A	310.9	75.5	82.8	77.4	79.8	315.5	81.8	69.5	66.5	65.2	283.0	73.0	81.0	79.0	79.0	312.0	79.0	79.0	79.0	79.0	316.0
Restructuring/other	7.9	(4.6)	2.7	20.0	8.7	26.8	1.0	28.0	(1.6)	116.7	144.1	3.7	1.8	5.5	3.0	14.0	0.0	0.0	0.0	0.0	0.0
Operating Expense	682.5	164.7	177.4	184.5	178.7	705.3	172.4	189.1	137.8	233.8	733.1	142.0	151.0	153.5	152.0	598.5	149.7	151.9	151.9	152.6	606.0
Operating Income	489.7	132.2	143.8	107.2	125.9	509.1	134.8	88.3	30.3	(70.2)	183.2	50.2	74.0	70.5	84.0	278.7	94.6	104.7	89.3	95.8	384.6
Interest Income	38.9	(8.4)	(13.6)	(14.9)	(14.8)	(51.7)	(14.5)	(14.9)	(16.7)	(16.2)	(62.3)	(15.2)	(15.0)	(14.5)	(14.5)	(59.2)	(14.5)	(14.5)	(14.5)	(14.5)	(58.0)
Other Income, net	2.0	(1.1)	(0.8)	(5.4)	1.1	(6.2)	(2.8)	(12.3)	1.0	6.8	(7.3)	3.3	2.4	(1.0)	(1.0)	3.7	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)
Pretax Income	530.6	122.7	129.4	86.9	112.2	451.2	117.5	61.1	14.6	(79.6)	113.6	38.3	61.4	55.0	68.5	223.2	79.1	89.2	73.8	80.3	322.6
Taxes	155.3	37.1	38.8	14.0	29.0	118.9	37.9	24.8	(6.5)	(15.9)	40.3	8.5	14.4	15.9	19.9	58.7	23.7	26.8	22.2	24.1	96.8
Net Income	375.3	85.6	90.6	72.9	83.2	332.3	79.6	36.3	21.1	(63.7)	73.3	29.8	47.0	39.0	48.6	164.5	55.4	62.5	51.7	56.2	225.8
EPS-basic	$1.12	$0.32	$0.35	$0.30	$0.35	$1.31	$0.34	$0.16	$0.09	($0.28)	$0.32	$0.13	$0.20	$0.16	$0.20	$0.69	$0.23	$0.26	$0.21	$0.23	$0.93
Shares-basic	334.2	270.1	258.9	245.4	236.8	252.8	230.8	228.0	228.4	230.1	229.1	233.6	236.6	237.8	239.0	236.7	240.2	241.4	242.6	243.8	242.0
EPS-diluted	$1.12	$0.30	$0.33	$0.29	$0.34	$1.26	$0.33	$0.16	$0.09	($0.28)	$0.31	$0.13	$0.20	$0.16	$0.20	$0.68	$0.23	$0.25	$0.21	$0.23	$0.92
Shares-diluted	334.2	283.9	271.5	255.5	246.3	264.3	241.3	234.0	231.3	230.1	235.1	237.9	241.0	241.8	243.0	240.9	244.2	245.4	246.6	247.8	246.0
EPS-pro forma							$0.43	$0.36	$0.12	$0.29	$1.22	$0.22	$0.27	$0.22							
Margin Analysis																					
GM	60.7%	63.0%	64.4%	64.3%	65.9%	64.4%	66.0%	65.8%	57.5%	58.3%	62.7%	61.1%	65.3%	65.0%	66.5%	64.6%	67.5%	67.5%	67.5%	67.5%	67.5%
R&D	18.8%	19.9%	18.4%	19.2%	19.5%	19.2%	19.2%	21.7%	24.9%	18.5%	21.0%	20.8%	19.8%	20.0%	19.7%	20.1%	19.5%	19.2%	20.4%	20.0%	19.8%
SG&A	16.1%	16.0%	16.6%	17.1%	17.3%	16.7%	17.6%	16.5%	22.7%	23.2%	19.4%	23.2%	23.5%	22.9%	22.3%	23.0%	21.8%	20.8%	22.1%	21.5%	21.5%
Operating Income	25.4%	28.0%	28.8%	23.6%	27.3%	27.0%	29.0%	20.9%	10.4%	-25.0%	12.5%	16.0%	21.5%	20.5%	23.7%	20.5%	26.1%	27.6%	25.0%	26.0%	26.2%
Pretax Income	27.5%	26.0%	25.9%	19.2%	24.3%	23.9%	25.2%	14.5%	5.0%	-28.3%	7.8%	12.2%	17.8%	16.0%	19.3%	16.4%	21.9%	23.5%	20.7%	21.8%	22.0%
Tax Rate	29.3%	30.2%	30.0%	16.1%	25.8%	26.4%	32.3%	40.6%	-44.5%	20.0%	35.5%	22.2%	23.5%	29.0%	29.0%	26.3%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income	19.4%	18.2%	18.2%	16.1%	18.0%	17.6%	17.1%	8.6%	7.2%	-22.7%	5.0%	9.5%	13.6%	11.3%	13.7%	12.1%	15.3%	16.4%	14.5%	15.3%	15.4%
Qtr-to-Qtr Growth																					
Revenue		3.4%	5.8%	-9.1%	1.9%		0.8%	-9.5%	-30.6%	-4.0%		12.0%	9.6%	0.0%	3.0%		2.0%	5.0%	-6.0%	3.0%	
Gross Profit		4.2%	8.2%	-9.2%	4.4%		0.9%	-9.7%	-39.4%	-2.7%		17.5%	17.1%	-0.4%	5.4%		3.5%	5.0%	-6.0%	3.0%	
Operating Income		15.9%	8.8%	-25.5%	17.4%		7.1%	-34.5%	-65.7%	-332%		-172%	47.4%	-4.7%	19.2%		12.7%	10.7%	-14.7%	7.3%	
Net Income		-5.0%	5.8%	-19.5%	14.1%		-4.3%	-54.4%	-41.9%	-402%		-147%	57.7%	-16.9%	24.6%		13.9%	12.8%	-17.3%	8.8%	
EPS		15.2%	10.4%	-15.1%	18.3%		-1.8%	-53.8%	-42.0%	-399.7%		-146%	55.7%	-17.3%	23.9%		13.3%	12.2%	-17.7%	8.3%	
Year-to-Year Growth																					
Revenue	-12.0%	-12.9%	-0.5%	5.2%	1.3%	-2.3%	-1.3%	-15.5%	-35.5%	-39.2%	-22.6%	-32.5%	-18.3%	17.9%	26.4%	-7.0%	15.2%	10.3%	3.7%	3.7%	8.0%
Gross Profit	7.0%	-11.2%	8.7%	13.2%	7.0%	3.6%	3.5%	-13.6%	-42.4%	-46.3%	-24.5%	-37.4%	-18.9%	33.2%	44.3%	-4.3%	27.1%	14.0%	7.7%	5.3%	12.9%
Operating Income	-3.6%	-20.1%	15.6%	25.1%	10.3%	4.0%	2.0%	-38.6%	-71.7%	-156%	-64.0%	-62.8%	-16.2%	132.6%	-220%	52.1%	88.5%	41.5%	26.7%	14.1%	38.0%
Net Income	-8.4%	-28.7%	-0.9%	-1.1%	-7.7%	-11.5%	-7.0%	-59.9%	-71.1%	-177%	-77.9%	-62.6%	29.5%	85.0%	-176%	124.4%	85.9%	32.9%	32.4%	15.6%	37.3%
EPS	-2.4%	-9.3%	28.5%	33.1%	27.7%	17.1%	8.8%	-54.5%	-68.9%	-179%	-75.7%	-63.0%	24.8%	77.7%	-174%	117.1%	80.8%	30.3%	29.8%	13.4%	34.3%

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National Semiconductor

Financial Summary

(dollars in millions) * restated

Fiscal year ends May

	FY2007	FY2008	FY2009	F2Q09	F3Q09	F4Q09	F1Q10	F2Q10
Assets								
Cash and equivalents	828.6	736.8	700.3	785.9	777.1	700.3	734.1	821.7
Short-term investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net accounts receivable	150.6	137.3	71.7	125.9	82.6	71.7	84.3	87.6
Quick Assets	979.2	874.1	772.0	911.8	859.7	772.0	818.4	909.3
Inventories	176.0	148.6	134.6	154.5	149.6	134.6	123.0	116.4
Other	135.3	148.9	190.2	117.7	126.7	190.2	211.0	208.5
Current Assets	1,290.5	1,171.6	1,096.8	1,184.0	1,136.0	1,096.8	1,152.4	1,234.2
Property, plant and eqt, net	583.5	557.3	461.8	559.3	542.0	461.8	425.8	416.0
Goodwill	63.6	60.5	61.5	60.5	60.5	61.5	61.5	66.1
Deferred tax assets	197.8	247.5	241.9	236.5	273.4	241.9	253.9	256.7
Other assets	69.9	112.2	101.3	108.2	101.5	101.3	97.9	102.5
Total Assets	2,205.3	2,149.1	1,963.3	2,148.5	2,113.4	1,963.3	1,991.5	2,075.5
Liabilities and Shareholders Equity								
Current portion of long-term debt	0.0	62.5	62.5	62.5	187.5	62.5	312.5	339.0
Accounts payable	59.9	53.5	40.3	58.2	47.6	40.3	47.3	41.7
Accrued expenses	122.7	180.3	144.6	187.9	119.9	144.6	129.8	161.2
Income taxes payable	117.4	12.3	28.2	11.6	33.4	28.2	7.4	17.0
Current Liabilities	300.0	308.6	275.6	320.2	388.4	275.6	497.0	558.9
Long-term debt	20.6	1,414.8	1,227.4	1,383.4	1,244.4	1,227.4	962.9	921.8
Other	157.7	228.8	283.3	231.8	227.9	283.3	289.7	298.6
Total Liabilities	478.3	1,952.2	1,786.3	1,935.4	1,860.7	1,786.3	1,749.6	1,779.3
Common stock	155.1	116.3	116.3	114.7	114.8	116.3	118.3	118.9
Additional paid-in capital	0.0	0.0	67.6	7.4	25.7	67.6	119.4	145.0
Retained earnings	1,685.7	167.4	116.8	178.3	199.5	116.8	127.9	156.0
Accumulated other comp. loss	(113.8)	(86.8)	(123.7)	(87.3)	(87.3)	(123.7)	(123.7)	(123.7)
Total Shareholders Equity	1,727.0	196.9	177.0	213.1	252.7	177.0	241.9	296.2
Total Liabilities and Equity	2,205.3	2,149.1	1,963.3	2,148.5	2,113.4	1,963.3	1,991.5	2,075.5
Sales and Income								
Revenue	1,929.9	1,885.9	1,460.4	421.6	292.4	280.8	314.4	344.6
COGS	757.7	671.5	544.1	144.2	124.3	117.2	122.2	119.6
Net income	375.3	332.3	73.3	36.3	21.1	(63.7)	29.8	47.0
Other								
Capital Expenditures	106.6	94.7	82.6	32.8	20.6	6.9	5.9	8.5
Depreciation and Amortization	144.7	132.7	119.8	30.3	30.5	27.8	25.0	22.8
Shares (weighted average diluted)	334.2	264.3	235.1	234.0	231.3	230.1	237.9	241.0
Employees (units)					6,500	6,000		
Dividends Paid	45.1	50.6	64.4	13.7	18.3	18.4	18.7	18.9
Stock Repurchased		2,123.5	128.4	23.0	0.4	0.0	0.0	0.0
Ratios								
Liquidity								
Quick Ratio	3.26	2.83	2.80	2.85	2.21	2.80	1.65	1.63
Current Ratio	4.30	3.80	3.98	3.70	2.92	3.98	2.32	2.21
Leverage								
Debt Ratio	0.22	0.91	0.91	0.90	0.88	0.91	0.88	0.86
Long-term Debt/Capital	0.08	0.76	0.77	0.75	0.70	0.77	0.63	0.59
Asset Management								
Fixed Asset Turnover	3.3	3.3	2.9	3.0	2.1	2.2	2.8	3.3
Total Asset Turnover	0.9	0.9	0.7	0.8	0.5	0.6	0.6	0.7
Recievables DSO	28	26	18	27	25	23	24	23
Inventory Days	84	80	89	96	108	103	91	88
Inventory Turns	4.3	4.1	3.8	3.8	3.3	3.3	3.8	4.0
Profitability								
Gross Margin	60.7%	64.4%	62.7%	65.8%	57.5%	58.3%	61.1%	65.3%
Net Margin	19.4%	17.6%	5.0%	8.6%	7.2%	-22.7%	9.5%	13.6%
Return on Assets	17.0%	15.3%	3.6%	6.8%	4.0%	-12.5%	6.0%	9.2%
Return on Equity	21.7%	34.5%	39.2%	69.9%	36.2%	-118.6%	56.9%	69.9%
Per Share Data								
Book Value/Share	$5.17	$0.74	$0.75	$0.91	$1.09	$0.77	$1.02	$1.23
Tangible Book Value/Share	$4.98	$0.52	$0.49	$0.65	$0.83	$0.50	$0.76	$0.95
Gross Cash/Share	$2.48	$2.79	$2.98	$3.36	$3.36	$3.04	$3.09	$3.41
Net Cash/Share	$2.42	($2.80)	($2.51)	($2.82)	($2.83)	($2.56)	($2.28)	($1.82)
Earnings/Share	$1.12	$1.26	$0.31	$0.16	$0.09	($0.28)	$0.13	$0.20

National Semiconductor

Sales Analysis

dollars in millions

Fiscal year ends May

	F2007					F2008					F2009					FY2010	
	F1Q	F2Q	F3Q	F4Q	FY07	F1Q	F2Q	F3Q	F4Q	FY08	F1Q	F2Q	F3Q	F4Q	FY09	F1Q	F2Q
Revenue by Product																	
Power	222.0	220.7	202.6	209.7	855.0	212.2	239.5	213.1	217.1	881.9	218.8	193.9	137.4	129.2	679.4	154.1	172.3
Amplifiers/Comparators	108.3	105.3	103.4	114.0	431.0	117.9	129.7	104.3	110.9	462.8	107.1	101.2	64.3	64.6	337.2	122.6	134.4
Interface	48.7	40.1	34.5	31.9	155.2	37.7	44.9	36.3	37.0	155.9	51.2	46.4	29.2	30.9	157.7	-	-
Data Converters	32.5	25.1	21.6	22.8	101.9	23.6	25.0	22.7	23.1	94.3	23.3	21.1	17.5	14.0	75.9	-	-
Other Analog	54.1	35.1	21.6	22.8	133.6	37.7	20.0	27.2	18.5	103.4	14.0	12.6	11.7	14.0	52.4	16.2	15.9
Total Analog	465.6	426.4	383.6	401.2	1,676.7	429.1	459.1	403.5	406.6	1,698.2	414.4	375.2	260.2	252.7	1,302.6	292.8	322.5
Non-Analog	75.8	75.2	47.4	50.1	248.6	42.4	44.9	49.9	50.8	188.0	46.6	42.2	32.2	28.1	149.0	21.7	22.1
Total Revenue	541.4	501.6	431.0	455.9	1,925.3	471.5	499.0	453.4	462.0	1,886.3	465.6	421.6	292.4	280.8	1,451.5	314	345
Growth																	
Power		-0.6%	-8.2%	3.5%		1.2%	12.9%	-11.0%	1.9%	3.2%	0.8%	-11.4%	-29.1%	-6.0%	-23.0%	19.3%	11.8%
Amplifiers/Comparators		-2.7%	-1.8%	10.2%		3.4%	10.1%	-19.6%	6.3%	7.4%	-3.4%	-5.5%	-36.4%	0.4%	-27.1%	12.0%	9.6%
Interface		-17.6%	-14.1%	-7.4%		18.2%	19.1%	-19.2%	1.9%	0.4%	38.6%	-9.5%	-37.0%	5.6%	1.2%		
Data Converters		-22.8%	-14.1%	5.8%		3.4%	5.8%	-9.1%	1.9%	-7.5%	0.8%	-9.5%	-16.8%	-20.0%	-19.5%		
Other Analog		-35.1%	-38.6%	5.8%		65.5%	-47.1%	36.3%	-32.1%	-22.6%	-24.4%	-9.5%	-7.5%	20.0%	-49.4%	15.1%	-1.9%
Total Analog		-8.4%	-10.0%	4.6%		6.9%	7.0%	-12.1%	0.8%	1.3%	1.9%	-9.5%	-30.6%	-2.9%	-23.3%	15.9%	10.1%
Non-Analog		-0.7%	-37.0%	5.8%		-15.4%	5.8%	11.1%	1.9%	-24.4%	-8.4%	-9.5%	-23.7%	-12.7%	-20.8%	-22.7%	1.7%
Total Revenue		-7.4%	-14.1%	5.8%		3.4%	5.8%	-9.1%	1.9%	-2.0%	0.8%	-9.5%	-30.6%	-4.0%	-23.0%	12.0%	9.6%
Revenue Percent																	
Power	41.0%	44.0%	47.0%	46.0%	44.4%	45.0%	48.0%	47.0%	47.0%	46.8%	47.0%	46.0%	47.0%	46.0%	46.8%	49.0%	50.0%
Amplifiers/Comparators	20.0%	21.0%	24.0%	25.0%	22.4%	25.0%	26.0%	23.0%	24.0%	24.5%	23.0%	24.0%	22.0%	23.0%	23.2%	39.0%	39.0%
Interface	9.0%	8.0%	8.0%	7.0%	8.1%	8.0%	9.0%	8.0%	8.0%	8.3%	11.0%	11.0%	10.0%	11.0%	10.9%		
Data Converters	6.0%	5.0%	5.0%	5.0%	5.3%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.0%	5.0%	5.2%		
Other Analog	10.0%	7.0%	5.0%	5.0%	6.9%	8.0%	4.0%	6.0%	4.0%	5.5%	3.0%	3.0%	4.0%	5.0%	3.6%	5.1%	4.6%
Total Analog	86.0%	85.0%	89.0%	88.0%	87.1%	91.0%	92.0%	89.0%	88.0%	90.0%	89.0%	89.0%	89.0%	90.0%	89.7%	93.1%	93.6%
Non-Analog	14.0%	15.0%	11.0%	11.0%	12.9%	9.0%	9.0%	11.0%	11.0%	10.0%	10.0%	10.0%	11.0%	10.0%	10.3%	6.9%	6.4%
Total Revenue	100.0%	100.0%	100.0%	99.0%	100.0%	100.0%	101.0%	100.0%	99.0%	100.0%	99.0%	99.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue by Region																	
Asia-Pacific					885.7					924.3					693.8		
Americas					423.6					377.3					341.1		
Europe					404.3					339.5					310.1		
Japan					211.8					245.2					115.4		
Total					1,925.3					1,886.3					1,460.4		
Revenue Percent																	
Asia-Pacific					46.0%					49.0%					47.5%		
Americas					22.0%					20.0%					23.4%		
Europe					21.0%					18.0%					21.2%		
Japan					11.0%					13.0%					7.9%		
Total					100.0%					100.0%					100.0%		
Revenue by Market																	
Handsets/Mobile											33%	30%	30%	30%		30%	30%
Communication/Network											10%	12%	12%	12%		12%	12%
Industrial											38%	38%	38%	38%		40%	40%
Other											19%	20%	20%	20%		18%	18%
Total											100%	100%	100%	100%		100%	100%
Revenue by Customer																	
Avnet					14.0%					15.0%					15.0%		
Arrow					13.0%					12.0%					13.0%		
Nokia										11.0%							
Other																	
Orders											-7%	-33%	-25%	30%		17%	17%
Utilization											70%	66%	37%	38%		46%	46%

National Semiconductor

Valuation

Relative Valuation

Company	Ticker	Price 12/10/09	52-Week Low	52-Week High	CY EPS 2007	CY EPS 2008	CY EPS 2009	CY EPS 2010	CY P/E 2007	CY P/E 2008	CY P/E 2009	CY P/E 2010	Diluted Shares(mil)	CAP ($ mil)	Price-Sales TTM	Price-Sales Cur FY	Price-Sales Nxt FY	FY Ends	Qtr Div/sh	Div Yield
National Semiconductor *	**NSM**	**15.28**	**9.06**	**16.20**	**1.13**	**1.12**	**0.14**	**0.84**	**13.5**	**13.6**	**109.1**	**18.2**	**241**	**3,682**	**3.0**	**2.7**	**2.5**	**May**	**$0.08**	**2.1%**
Analog Devices	ADI	30.45	17.80	30.98	1.51	1.55	1.16	1.76	20.2	19.6	26.3	17.3	294	8,952	4.4	3.7	3.5	Oct	$0.20	2.6%
Linear Technology	LLTC	28.28	20.26	28.99	1.70	2.01	1.27	1.37	16.6	14.1	22.3	20.6	228	6,445	7.2	6.4	5.7	Jun	$0.22	3.1%
Maxim Integrated Products	MXIM	18.97	10.80	19.43	0.86	0.48	0.46	0.86	22.1	39.5	41.2	22.1	312	5,922	3.7	3.3	3.0	Jun	$0.20	4.2%
STMicroelectronics	STM	8.43	3.73	10.28	0.44	0.44	-0.73	0.25	19.2	19.2	NM	33.7	879	7,408	0.9	0.9	0.8	Dec-ADR	$0.03	1.4%
Texas Instruments *	TXN	25.94	13.70	27.00	1.8	1.58	1.25	1.87	14.4	16.4	20.8	13.9	1,268	32,892	3.3	3.2	2.7	Dec	$0.12	1.9%
Average									18.5	21.8	27.6	21.5			3.9	3.5	3.1			

** Tokeneke estimate*
Source: consensus as of 12/10/09

Historical Valuation

Company	Ticker	Price 12/10/09	Trailing 12-month Price/Earnings Current	Price/Earnings Historical*	Price/Sales Current	Price/Sales Historical*	Price/Book Current	Price/Book Historical*
National Semiconductor	NSM	$15.28	109.1		3.0		12.4	
			Average	38.8	Average	2.1	Average	2.8
			High	600.0	High	6.6	High	16.3
			Low	7.1	Low	0.2	Low	0.5

** weekly since 1990*

Tokeneke Research LLC

Semiconductor Industry Analysis and Insight

Company Overview

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.

The Offering

- *Monthly Newsletter:* A summarized review of noteworthy industry business developments, sales statistics, and sector equity market performance, as well as a near-term and annual outlook for sector business fundamentals and share prices. This report typically includes two pages of text and a handful of recurring charts and tables. It is intended for relatively broad-based distribution.
- *Industry Reports:* A semi-annual publication offering insight and perspective to industry-wide, multi-year forecast updates; periodic sub-sector product type and/or end-market reviews; fundamental and valuation perspectives on sector equity relationships; and an industry introduction and overview. These are more detailed reports with varying shelf-lives, and are intended for narrow distribution to interested clients.
- *Company Reports:* Fundamental equity research including earnings estimates and customized valuation analysis.
- *Consulting:* Special projects of limited or extended duration, as well as periodic access of varying frequency.

Publications are distributed via email in .pdf format, unless otherwise requested. Client confidentiality and customized research exclusivity accommodated. Rates vary with the nature, duration, and terms of offerings.

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.

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