

INTEL CORP  
Form 10-Q  
November 04, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 1, 2011.

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-06217

**INTEL CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

2200 Mission College Boulevard, Santa Clara, California  
(Address of principal executive offices)

94-1672743  
(I.R.S. Employer  
Identification No.)

95054-1549  
(Zip Code)

(408) 765-8080

(Registrant's telephone number, including area code)

N/A

## Edgar Filing: INTEL CORP - Form 10-Q

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Shares outstanding of the Registrant's common stock:

Class	Outstanding as of October 28, 2011
Common stock, \$0.001 par value	5,092 million

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## INTEL CORPORATION

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

(In Millions, Except Per Share Amounts)	Three Months Ended		Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010	Oct. 1, 2011	Sept. 25, 2010
<b>Net revenue</b>	<b>\$ 14,233</b>	<b>\$ 11,102</b>	<b>\$ 40,112</b>	<b>\$ 32,166</b>
Cost of sales	5,215	3,781	15,307	11,081
<b>Gross margin</b>	<b>9,018</b>	<b>7,321</b>	<b>24,805</b>	<b>21,085</b>
Research and development	2,140	1,675	6,042	4,905
Marketing, general and administrative	2,017	1,506	5,697	4,604
Amortization of acquisition-related intangibles	76	4	188	11
<b>Operating expenses</b>	<b>4,233</b>	<b>3,185</b>	<b>11,927</b>	<b>9,520</b>
<b>Operating income</b>	<b>4,785</b>	<b>4,136</b>	<b>12,878</b>	<b>11,565</b>
Gains (losses) on equity method investments, net	(40)	126	(148)	163
Gains (losses) on other equity investments, net	132	(49)	243	76
Interest and other, net	15	38	221	78
<b>Income before taxes</b>	<b>4,892</b>	<b>4,251</b>	<b>13,194</b>	<b>11,882</b>
Provision for taxes	1,424	1,296	3,612	3,598
<b>Net income</b>	<b>\$ 3,468</b>	<b>\$ 2,955</b>	<b>\$ 9,582</b>	<b>\$ 8,284</b>
<b>Basic earnings per common share</b>	<b>\$ 0.67</b>	<b>\$ 0.53</b>	<b>\$ 1.80</b>	<b>\$ 1.49</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.65</b>	<b>\$ 0.52</b>	<b>\$ 1.75</b>	<b>\$ 1.45</b>
<b>Cash dividends declared per common share</b>	<b>\$ 0.4200</b>	<b>\$ 0.3150</b>	<b>\$ 0.7824</b>	<b>\$ 0.6300</b>
<b>Weighted average common shares outstanding:</b>				
<b>Basic</b>	<b>5,194</b>	<b>5,575</b>	<b>5,317</b>	<b>5,556</b>
<b>Diluted</b>	<b>5,340</b>	<b>5,694</b>	<b>5,466</b>	<b>5,695</b>

See accompanying notes.

## INTEL CORPORATION

## CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions)	0000000 Oct. 1, 2011	0000000 Dec. 25, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,057	\$ 5,498
Short-term investments	3,876	11,294
Trading assets	4,265	5,093
Accounts receivable, net	3,821	2,867
Inventories	3,959	3,757
Deferred tax assets	2,011	1,488
Other current assets	1,709	1,614
<b>Total current assets</b>	<b>26,698</b>	<b>31,611</b>
<b>Property, plant and equipment, net of accumulated depreciation of \$34,660 (\$32,582 as of December 25, 2010)</b>	<b>22,157</b>	<b>17,899</b>
<b>Marketable equity securities</b>	<b>516</b>	<b>1,008</b>
<b>Other long-term investments</b>	<b>858</b>	<b>3,026</b>
<b>Goodwill</b>	<b>9,138</b>	<b>4,531</b>
<b>Identified intangible assets, net</b>	<b>6,445</b>	<b>860</b>
<b>Other long-term assets</b>	<b>4,739</b>	<b>4,251</b>
<b>Total assets</b>	<b>\$ 70,551</b>	<b>\$ 63,186</b>
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Short-term debt	\$ 66	\$ 38
Accounts payable	2,999	2,290
Accrued compensation and benefits	2,270	2,888
Accrued advertising	1,215	1,007
Deferred income	1,917	747
Other accrued liabilities	3,442	2,357
<b>Total current liabilities</b>	<b>11,909</b>	<b>9,327</b>
<b>Long-term income taxes payable</b>	<b>192</b>	<b>190</b>
<b>Long-term debt</b>	<b>7,076</b>	<b>2,077</b>
<b>Long-term deferred tax liabilities</b>	<b>2,762</b>	<b>926</b>
<b>Other long-term liabilities</b>	<b>2,495</b>	<b>1,236</b>
<b>Contingencies (Note 26)</b>		
Stockholders equity:		
Preferred stock		
Common stock and capital in excess of par value, 5,118 shares issued and outstanding (5,581 issued and 5,511 outstanding as of December 25, 2010)	16,247	16,178
Accumulated other comprehensive income (loss)	(32)	333
Retained earnings	29,902	32,919
<b>Total stockholders equity</b>	<b>46,117</b>	<b>49,430</b>

**Total liabilities and stockholders equity**

**\$ 70,551    \$ 63,186**

*See accompanying notes.*

## INTEL CORPORATION

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

(In Millions)	Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010
<b>Cash and cash equivalents, beginning of period</b>	<b>\$ 5,498</b>	<b>\$ 3,987</b>
Cash flows provided by (used for) operating activities:		
Net income	9,582	8,284
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,808	3,252
Share-based compensation	812	704
Net loss on retirement of assets	78	26
Excess tax benefit from share-based payment arrangements	(28)	(63)
Amortization of intangibles	667	180
(Gains) losses on equity method investments, net	148	(163)
(Gains) losses on other equity investments, net	(243)	(76)
(Gains) losses on divestitures	(164)	
Deferred taxes	589	(36)
Changes in assets and liabilities:		
Accounts receivable	(856)	(628)
Inventories	(110)	(479)
Accounts payable	645	20
Accrued compensation and benefits	(651)	(205)
Income taxes payable and receivable	194	179
Other assets and liabilities	(138)	147
<b>Total adjustments</b>	<b>4,751</b>	<b>2,858</b>
<b>Net cash provided by operating activities</b>	<b>14,333</b>	<b>11,142</b>
Cash flows provided by (used for) investing activities:		
Additions to property, plant and equipment	(7,920)	(3,338)
Acquisitions, net of cash acquired	(8,477)	(70)
Purchases of available-for-sale investments	(7,426)	(11,835)
Sales of available-for-sale investments	9,052	430
Maturities of available-for-sale investments	8,645	8,363
Purchases of trading assets	(6,795)	(6,761)
Maturities and sales of trading assets	7,688	5,949
Origination of loans receivable	(206)	(421)
Investments in non-marketable equity investments	(569)	(242)
Return of equity method investments	172	151
Proceeds from divestitures	50	
Other investing	252	207
<b>Net cash used for investing activities</b>	<b>(5,534)</b>	<b>(7,567)</b>
Cash flows provided by (used for) financing activities:		
Increase (decrease) in short-term debt, net	28	87
Proceeds from government grants	56	79
Excess tax benefit from share-based payment arrangements	28	63
Issuance of long-term debt	4,962	
Proceeds from sales of shares through employee equity incentive plans	925	535

Edgar Filing: INTEL CORP - Form 10-Q

Repurchase of common stock	(10,187)	(222)
Payment of dividends to stockholders	(3,057)	(2,624)
Other financing	(5)	37
<b>Net cash used for financing activities</b>	<b>(7,250)</b>	<b>(2,045)</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>10</b>	
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,559</b>	<b>1,530</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 7,057</b>	<b>\$ 5,517</b>

Supplemental disclosures of cash flow information:

Cash paid during the period for:		
Income taxes, net of refunds	\$ 2,770	\$ 3,493
<i>See accompanying notes.</i>		

---

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited

**Note 1: Basis of Presentation**

We prepared our interim consolidated condensed financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles (GAAP), consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 25, 2010.

We have a 52- or 53-week fiscal year that ends on the last Saturday in December. Fiscal year 2011 is a 53-week fiscal year, and the first quarter of 2011 was a 14-week quarter. Fiscal year 2010 was a 52-week fiscal year, and the first quarter of 2010 was a 13-week quarter.

In the first quarter of 2011, we completed the acquisition of McAfee, Inc. For further information, see Note 15: Acquisitions. Certain of the operations acquired from McAfee have a functional currency other than the U.S. dollar. As a result, translation adjustments have been recorded through accumulated other comprehensive income (loss) beginning in 2011.

We have made estimates and judgments affecting the amounts reported in our consolidated condensed financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. The accounting estimates that require our most significant, difficult, and subjective judgments include:

- the valuation of non-marketable equity investments and the determination of other-than-temporary impairments;
- the assessment of recoverability of long-lived assets (property, plant and equipment; goodwill; and identified intangibles);
- the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions);
- the valuation of inventory; and
- the recognition and measurement of loss contingencies.

The interim financial information is unaudited, but reflects all normal adjustments that are, in our opinion, necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2010.

**Note 2: Accounting Policies**

We have adopted additional revenue recognition accounting policies as they apply to the acquired McAfee business. Revenue from license agreements with our McAfee business generally includes service and support agreements for which the related revenue is deferred and recognized ratably over the performance period. Revenue derived from online subscription products is deferred and recognized ratably over the performance period. Professional services revenue is recognized as services are performed or if required, upon customer acceptance. For arrangements with multiple elements, including software licenses, maintenance, and/or services, revenue is allocated across the separately identified deliverables and may be recognized or deferred. When vendor-specific objective evidence (VSOE) does not exist for undelivered elements such as maintenance and support, the entire arrangement fee is recognized ratably over the performance period. Direct costs, such as costs related to revenue-sharing and royalty arrangements associated with license arrangements, as well as component costs associated with product revenue, are deferred and amortized over the same period that the related revenue is recognized.



---

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

**Note 3: Accounting Changes**

In the first quarter of 2011, we adopted new standards for revenue recognition with multiple deliverables. These new standards change the determination of whether the individual deliverables included in a multiple-element arrangement may be treated as separate units for accounting purposes. Additionally, these new standards modify the method by which revenue is allocated to the separately identified deliverables. The adoption of these new standards did not have a significant impact on our consolidated condensed financial statements.

In the first quarter of 2011, we adopted new standards that remove certain tangible products and associated software from the scope of the software revenue recognition guidance. The adoption of these new standards did not have a significant impact on our consolidated condensed financial statements.

**Note 4: Recent Accounting Standards**

In May 2011, the Financial Accounting Standards Board (FASB) issued amended standards to achieve a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards. For assets and liabilities categorized as Level 3 and recognized at fair value, these amended standards require disclosure of quantitative information about unobservable inputs, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. In addition, these amended standards require that we disclose the level in the fair value hierarchy for financial instruments disclosed at fair value but not recorded at fair value. These new standards are effective for us beginning in the first quarter of 2012; early adoption of these standards is prohibited. We do not expect these new standards to significantly impact our consolidated condensed financial statements.

In June 2011, the FASB issued amended standards to increase the prominence of items reported in other comprehensive income. These amendments eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and require that all changes in stockholders equity except investments by, and distributions to, owners be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, these amendments require that we present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. These new standards are effective for us beginning in the first quarter of 2012 and are to be applied retrospectively. These amended standards will impact the presentation of other comprehensive income but will not impact our financial position or results of operations. We do not expect these new standards to significantly impact our consolidated condensed financial statements.

In September 2011, the FASB issued amended standards to simplify how entities test goodwill for impairment. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. For reporting units in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform further goodwill impairment testing as outlined in the previously issued standards. These amended standards are effective for us beginning in the first quarter of 2012; however, we plan to early adopt in the fourth quarter. We do not expect these new standards to significantly impact our consolidated condensed financial statements.

---

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

**Note 5: Fair Value**

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use when pricing the asset or liability. Our financial assets and liabilities are measured and recorded at fair value, except for equity method investments, cost method investments, cost method loans receivable, and most of our liabilities.

***Fair Value Hierarchy***

The three levels of inputs that may be used to measure fair value are as follows:

*Level 1.* Quoted prices in active markets for identical assets or liabilities.

*Level 2.* Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include non-binding market consensus prices that can be corroborated with observable market data, as well as quoted prices that were adjusted for security-specific restrictions.

*Level 3.* Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities. Level 3 inputs also include non-binding market consensus prices or non-binding broker quotes that we were unable to corroborate with observable market data.

***Marketable Debt Instruments***

Marketable debt instruments include instruments such as commercial paper, corporate bonds, government bonds, bank deposits, asset-backed securities, municipal bonds, and money market fund deposits. When we use observable market prices for identical securities that are traded in less active markets, we classify our marketable debt instruments as Level 2. When observable market prices for identical securities are not available, we price our marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. We corroborate non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.

Our marketable debt instruments that are classified as Level 3 are classified as such due to the lack of observable market data to corroborate either the non-binding market consensus prices or the non-binding broker quotes. When observable market data is not available, we corroborate non-binding market consensus prices and non-binding broker quotes using available unobservable data.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

*Assets/Liabilities Measured and Recorded at Fair Value on a Recurring Basis*

Assets and liabilities measured and recorded at fair value on a recurring basis consisted of the following types of instruments as of October 1, 2011 and December 25, 2010:

(In Millions)	October 1, 2011				December 25, 2010			
	Fair Value Measured and Recorded at Reporting Date Using				Fair Value Measured and Recorded at Reporting Date Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Cash equivalents:								
Commercial paper	\$	\$ 3,457	\$	\$ 3,457	\$	\$ 2,600	\$	\$ 2,600
Government bonds	1,650			1,650	1,279	505		1,784
Bank deposits		499		499		560		560
Money market fund deposits	463			463	34			34
Short-term investments:								
Commercial paper		2,403		2,403		2,712		2,712
Corporate bonds	144	525	7	676	121	1,378	1	1,500
Government bonds	82	373		455	4,890	1,320		6,210
Bank deposits		342		342		858		858
Asset-backed securities							14	14
Trading assets:								
Government bonds	883	1,683		2,566	311	2,115		2,426
Corporate bonds	201	540		741	199	916		1,115
Commercial paper		404		404		488		488
Municipal bonds		288		288		375		375
Asset-backed securities			130	130			190	190
Bank deposits		89		89		108		108
Money market fund deposits	41			41	3			3
Marketable equity securities	6			6	388			388
Other current assets:								
Derivative assets		224		224		330		330
Loans receivable		34		34				
Marketable equity securities	448	68		516	785	223		1,008
Other long-term investments:								
Corporate bonds	34	340	59	433	104	601	50	755
Government bonds		300		300	83	2,002		2,085
Bank deposits		75		75		133		133
Asset-backed securities			50	50			53	53
Other long-term assets:								
Loans receivable		745		745		642		642
Derivative assets		20	30	50		19	31	50
<b>Total assets measured and recorded at fair value</b>	<b>\$ 3,952</b>	<b>\$ 12,409</b>	<b>\$ 276</b>	<b>\$ 16,637</b>	<b>\$ 8,197</b>	<b>\$ 17,885</b>	<b>\$ 339</b>	<b>\$ 26,421</b>
<b>Liabilities</b>								
Other accrued liabilities:								
Derivative liabilities	\$	\$ 279	\$ 11	\$ 290	\$	\$ 201	\$ 7	\$ 208
Long-term debt			129	129			128	128

Edgar Filing: INTEL CORP - Form 10-Q

Other long-term liabilities:								
Derivative liabilities		32		32		47		47
<b>Total liabilities measured and recorded at fair value</b>	<b>\$</b>	<b>\$ 311</b>	<b>\$ 140</b>	<b>\$ 451</b>	<b>\$</b>	<b>\$ 248</b>	<b>\$ 135</b>	<b>\$ 383</b>

Government bonds include bonds issued or deemed to be guaranteed by government entities. Government bonds include instruments such as non-U.S. government bonds, U.S. Treasury securities, U.S. agency securities, and Federal Deposit Insurance Corporation (FDIC)-insured corporate bonds.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

The tables below present reconciliations for all assets and liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended October 1, 2011 and for the twelve months ended December 25, 2010:

(In Millions)	Fair Value Measured and Recorded Using Significant Unobservable Inputs (Level 3)					Total Gains (Losses)
	Corporate Bonds	Asset-Backed Securities	Derivative Assets	Derivative Liabilities	Long-term Debt	
<b>Balance as of December 25, 2010</b>	<b>\$ 51</b>	<b>\$ 257</b>	<b>\$ 31</b>	<b>\$ (7)</b>	<b>\$ (128)</b>	
Total gains or losses (realized and unrealized):						
Included in earnings	(2)	(2)	(1)	(4)	(1)	(10)
Included in other comprehensive income (loss)	8	(3)				5
Purchases	13	12	3			
Settlements and maturities	(4)	(84)				
Transfers out of Level 3			(3)			
<b>Balance as of October 1, 2011</b>	<b>\$ 66</b>	<b>\$ 180</b>	<b>\$ 30</b>	<b>\$ (11)</b>	<b>\$ (129)</b>	
Changes in unrealized gains or losses included in earnings related to assets and liabilities still held as of October 1, 2011	\$ (2)	\$ (2)	\$ (1)	\$ (4)	\$ (1)	\$ (10)

(In Millions)	Fair Value Measured and Recorded Using Significant Unobservable Inputs (Level 3)					Total Gains (Losses)
	Corporate Bonds	Asset-Backed Securities	Derivative Assets	Derivative Liabilities	Long-term Debt	
<b>Balance as of December 26, 2009</b>	<b>\$ 369</b>	<b>\$ 754</b>	<b>\$ 31</b>	<b>\$ (65)</b>	<b>\$ (123)</b>	
Total gains or losses (realized and unrealized):						
Included in earnings	(2)	6	(3)	(2)	(5)	(6)
Included in other comprehensive income (loss)	4	9				13
Purchases	6		7			
Sales	(44)	(28)	(4)			
Settlements and maturities	(75)	(484)				
Transfers out of Level 3	(207)			60		
<b>Balance as of December 25, 2010</b>	<b>\$ 51</b>	<b>\$ 257</b>	<b>\$ 31</b>	<b>\$ (7)</b>	<b>\$ (128)</b>	

Changes in unrealized gains or losses included in earnings related to assets and liabilities still held as of December 25, 2010

	\$	\$ 6	\$ (4)	\$ (1)	\$ (5)	\$ (4)
--	----	------	--------	--------	--------	--------

For all periods presented, gains and losses (realized and unrealized) included in earnings were primarily reported outside of operating income. During 2010, we transferred corporate bonds from Level 3 to Level 2 due to improved availability of observable market data and non-binding market consensus prices to value or corroborate the value of these instruments. Our policy is to reflect transfers in and transfers out at the beginning of the quarter in which a change in circumstances resulted in the transfer.

**Fair Value Option for Financial Assets/Liabilities**

We elected the fair value option for loans made to third parties when the interest rate or foreign exchange rate risk was hedged at inception with a related derivative instrument. As of October 1, 2011, the fair value of our loans receivable for which we elected the fair value option did not significantly differ from the contractual principal balance based on the contractual currency. These loans receivable are classified within other long-term assets and other current assets. Fair value is determined using a discounted cash flow model with all significant inputs derived from or

## Edgar Filing: INTEL CORP - Form 10-Q

corroborated with observable market data. Gains and losses from changes in fair value on the loans receivable and related derivative instruments, as well as interest income, are recorded in interest and other, net. During the three and nine months ended October 1, 2011, changes in the fair value of our loans receivable were largely offset by changes in the related derivative instruments, resulting in an insignificant net impact on our consolidated condensed statements of income. Gains and losses attributable to changes in credit risk are determined using observable credit default spreads for the issuer or comparable companies and were insignificant during the three and nine months ended October 1, 2011. We did not elect the fair value option for loans when the interest rate or foreign exchange rate risk was not hedged at inception with a related derivative instrument.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

We elected this fair value option for the bonds issued in 2007 by the Industrial Development Authority of the City of Chandler, Arizona (2007 Arizona bonds). In connection with the 2007 Arizona bonds, we entered into a total return swap agreement that effectively converts the fixed-rate obligation on the bonds to a floating U.S.-dollar LIBOR-based rate. As a result, changes in the fair value of this debt are largely offset by changes in the fair value of the total return swap agreement, without the need to apply hedge accounting provisions. The 2007 Arizona bonds are included in long-term debt. As of October 1, 2011 and December 25, 2010, no other instruments were similar to the 2007 Arizona bonds for which we elected fair value treatment.

As of October 1, 2011, the fair value of the 2007 Arizona bonds did not significantly differ from the contractual principal balance. The fair value of the 2007 Arizona bonds was determined using inputs that are observable in the market or that can be derived from or corroborated with observable market data, as well as unobservable inputs that were significant to the fair value. Gains and losses on the 2007 Arizona bonds and the related total return swap are recorded in interest and other, net. We capitalize interest associated with the 2007 Arizona bonds. We add capitalized interest to the cost of qualified assets and amortize it over the estimated useful lives of the assets.

*Assets Measured and Recorded at Fair Value on a Non-Recurring Basis*

Our non-marketable equity investments and non-financial assets, such as intangible assets and property, plant and equipment, are recorded at fair value only if an impairment charge is recognized. The following table presents the financial instruments and non-financial assets that were measured and recorded at fair value on a non-recurring basis during the nine months ended October 1, 2011, and the gains (losses) recorded during the three and nine months ended October 1, 2011 on those assets:

(In Millions)	Net Carrying Value as of Fair Value Measured and Recorded Using				Total Gains (Losses) for Three Months	Total Gains (Losses) for Nine Months
	Oct. 1, 2011	Level 1	Level 2	Level 3	Ended Oct. 1, 2011	Ended Oct. 1, 2011
Non-marketable equity investments	\$ 53	\$	\$	\$ 53	\$ (12)	\$ (33)
Property, plant and equipment	\$	\$	\$	\$	\$	\$ (10)
<b>Total gains (losses) for assets held as of October 1, 2011</b>					<b>\$ (12)</b>	<b>\$ (43)</b>
Gains (losses) for non-marketable equity investments no longer held					\$	\$ (1)
Gains (losses) for property, plant and equipment no longer held					\$ (23)	\$ (68)
<b>Total gains (losses) for recorded non-recurring measurement</b>					<b>\$ (35)</b>	<b>\$ (112)</b>

The following table presents the financial instruments and non-financial assets that were measured and recorded at fair value on a non-recurring basis during the nine months ended September 25, 2010, and the gains (losses) recorded during the three and nine months ended September 25, 2010 on those assets:

(In Millions)	Net Carrying Value as of	Fair Value Measured and Recorded Using	Total Gains (Losses) for Three Months	Total Gains (Losses) for Nine Months
---------------	--------------------------	--	---------------------------------------	--------------------------------------

Edgar Filing: INTEL CORP - Form 10-Q

	Sept. 25, 2010	Leve 1	Level 2	Level 3	Ended Sept. 25, 2010	Ended Sept. 25, 2010
Non-marketable equity investments	\$ 123	\$	\$	\$ 125	\$ (32)	\$ (94)
<b>Total gains (losses) for assets held as of September 25, 2010</b>					\$ (32)	\$ (94)
Gains (losses) for non-marketable equity investments no longer held					\$	\$ (1)
Gains (losses) for property, plant and equipment no longer held					\$ (9)	\$ (49)
<b>Total gains (losses) for recorded non-recurring measurement</b>					\$ (41)	\$ (144)



## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

In the preceding tables, the carrying value of our impaired non-marketable equity investments at the end of the period may not equal our fair value measurement at the time of impairment due to the subsequent recognition of equity method adjustments. In addition, the carrying value of our impaired property, plant and equipment at the end of the period may not equal our fair value measurement at the time of impairment due to the subsequent recognition of depreciation expense.

A portion of our non-marketable equity investments were measured and recorded at fair value in the first nine months of 2011 and 2010 due to events or circumstances that significantly impacted the fair value of those investments, resulting in other-than-temporary impairment charges. We classified these measurements as Level 3, as we used unobservable inputs to the valuation methodologies that were significant to the fair value measurements, and the valuations required management judgment due to the absence of quoted market prices. We determine the fair value of our non-marketable equity investments using the market and income approaches. The market approach includes the use of financial metrics and ratios of comparable public companies. The selection of comparable companies requires management judgment and is based on a number of factors, including comparable companies' sizes, growth rates, industries, development stages, and other relevant factors. The income approach includes the use of a discounted cash flow model, which requires the following significant estimates for the investee: revenue, costs, and discount rates based on the risk profile of comparable companies. Estimates of revenues and costs are developed using historical data and available market data. The valuation of these non-marketable equity investments also takes into account variables such as conditions reflected in the capital markets, recent financing activities by the investees, the investees' capital structure, the terms of the investees' issued interests, and the lack of marketability of the investments.

Additionally, certain of our property, plant and equipment was measured and recorded at fair value during the first nine months of 2011 and 2010 due to events or circumstances we identified that indicated that the carrying value of the assets or the asset grouping was not recoverable, resulting in impairment charges. Most of these asset impairments related to manufacturing assets.

*Financial Instruments Not Recorded at Fair Value on a Recurring Basis*

We measure the fair value of our non-marketable equity investments, marketable equity method investment, debt carried at amortized cost, and cost method loans receivable quarterly for disclosure purposes; however, they are recorded at fair value only when an impairment charge is recognized. The carrying amounts and fair values of financial instruments not recorded at fair value on a recurring basis as of October 1, 2011 and December 25, 2010 were as follows:

(In Millions)	0000000	0000000	0000000	0000000
	October 1, 2011		December 25, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-marketable equity investments	\$ 2,795	\$ 5,588	\$ 2,633	\$ 5,144
Marketable equity method investment	\$ 37	\$ 73	\$ 31	\$ 167
Loans receivable	\$ 258	\$ 258	\$ 208	\$ 208
Long-term debt	\$ 6,947	\$ 7,533	\$ 1,949	\$ 2,283

As of October 1, 2011 and December 25, 2010, the unrealized loss position of our non-marketable equity investments was not significant.

Our marketable equity method investment is our ownership interest in SMART Technologies, Inc. The fair value of our ownership interest in SMART was based on the quoted closing stock price as of October 1, 2011 and December 25, 2010.

The carrying amount and fair value of loans receivable exclude loans measured and recorded at a fair value of \$779 million as of October 1, 2011 (\$642 million as of December 25, 2010). The carrying amount and fair value of long-term debt exclude long-term debt measured and recorded at a fair value of \$129 million as of October 1, 2011 (\$128 million as of December 25, 2010).

The fair value of our loans receivable is determined using a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. The credit quality of our loans receivable remains high, with credit ratings of BBB+/A2 or better as of October 1, 2011. The fair value of our long-term debt is determined using third party market prices and discounted cash flow models that take into consideration variables such as credit-rating changes and interest rate changes.

## Edgar Filing: INTEL CORP - Form 10-Q

In addition to the financial instruments in the table above, we incurred a liability as result of entering into a long-term patent cross-license agreement with NVIDIA Corporation in January 2011. We agreed to make payments to NVIDIA over six years. For further information on the payment terms and recognition of licensed technology intangible assets, see Note 18: Identified Intangible Assets. As of October 1, 2011, the carrying amount of the liability arising from the agreement was \$1.2 billion and is classified within other accrued liabilities and other long-term liabilities, as applicable. The fair value of the liability arising from the NVIDIA cross-license agreement approximates the carrying amount. The fair value is determined using a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

**Note 6: Trading Assets**

Trading assets as of October 1, 2011 and December 25, 2010 were as follows:

(In Millions)	Oct. 1, 2011	Dec. 25 2010
Marketable debt instruments	\$ 4,259	\$ 4,705
Marketable equity securities	6	388
<b>Total trading assets</b>	<b>\$ 4,265</b>	<b>\$ 5,093</b>

Net losses on marketable debt instruments classified as trading assets still held at the reporting date were \$89 million in the third quarter of 2011 and \$37 million in the first nine months of 2011 (net gains of \$154 million in the third quarter of 2010 and net losses of \$11 million in the first nine months of 2010). Net gains on the related derivatives were \$81 million in the third quarter of 2011 and \$42 million in the first nine months of 2011 (net losses of \$130 million in the third quarter of 2010 and net gains of \$4 million in the first nine months of 2010).

Net losses on marketable equity securities classified as trading assets still held at the reporting date, excluding the impacts of the related derivatives, were insignificant in the third quarter of 2011 and in the first nine months of 2011 (net losses of \$129 million in the third quarter of 2010 and \$91 million in the first nine months of 2010).

In 2010, we sold our ownership interest in Numonyx B.V. to Micron Technology, Inc. The Micron common stock we received in the transaction was classified as marketable equity securities within trading assets. During the second quarter of 2011, we sold our remaining shares in Micron.

**Note 7: Available-for-Sale Investments**

Available-for-sale investments as of October 1, 2011 and December 25, 2010 were as follows:

(In Millions)	October 1, 2011				December 25, 2010			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	\$ 5,864	\$	\$ (4)	\$ 5,860	\$ 5,312	\$	\$	\$ 5,312
Government bonds	2,407		(2)	2,405	10,075	9	(5)	10,079
Corporate bonds	1,100	14	(5)	1,109	2,250	9	(4)	2,255
Bank deposits	916			916	1,550	1		1,551
Marketable equity securities	200	319	(3)	516	380	629	(1)	1,008
Money market fund deposits	463			463	34			34
Asset-backed securities	63		(13)	50	76		(9)	67
<b>Total available-for-sale investments</b>	<b>\$ 11,013</b>	<b>\$ 333</b>	<b>\$ (27)</b>	<b>\$ 11,319</b>	<b>\$ 19,677</b>	<b>\$ 648</b>	<b>\$ (19)</b>	<b>\$ 20,306</b>

In the preceding table, government bonds include bonds issued or deemed to be guaranteed by government entities. Government bonds include instruments such as U.S. Treasury securities, non-U.S. government bonds, U.S. agency securities, and Federal Deposit Insurance Corporation (FDIC)-insured corporate bonds as of October 1, 2011 and December 25, 2010.

## Edgar Filing: INTEL CORP - Form 10-Q

The amortized cost and fair value of available-for-sale debt investments as of October 1, 2011, by contractual maturity, were as follows:

(In Millions)	Cost	Fair Value
Due in 1 year or less	\$ 9,487	\$ 9,483
Due in 1 - 2 years	512	515
Due in 2 - 5 years	284	289
Due after 5 years	4	3
Instruments not due at a single maturity date	526	513
<b>Total</b>	<b>\$ 10,813</b>	<b>\$ 10,803</b>

Instruments not due at a single maturity date in the table above includes asset-backed securities and money market fund deposits.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

We sold available-for-sale investments for proceeds of \$298 million in the third quarter of 2011 and \$9.1 billion in the first nine months of 2011 (\$93 million in the third quarter of 2010 and \$399 million in the first nine months of 2010). Substantially all of the proceeds in the first nine months of 2011 were from debt investments that were primarily used to fund our acquisition of McAfee. The gross realized gains on sales of available-for-sale investments were \$186 million in the third quarter of 2011 and \$251 million in the first nine months of 2011 (\$33 million in the third quarter of 2010 and \$112 million in the first nine months of 2010) and were primarily related to our sales of marketable equity securities. We determine the cost of an investment sold on an average cost basis at the individual security level.

The before-tax net unrealized holding gains (losses) on available-for-sale investments that have been included in other comprehensive income (loss) and the before-tax net gains (losses) reclassified from accumulated other comprehensive income (loss) into earnings were as follows:

(In Millions)	Three Months Ended		Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010	Oct. 1, 2011	Sept. 25, 2010
Net unrealized holding gains (losses) included in other comprehensive income (loss)	\$ (47)	\$ 231	\$ (23)	\$ 365
Net gains (losses) reclassified from accumulated other comprehensive income (loss) into earnings	\$ 203	\$ 16	\$ 291	\$ 90

**Note 8: Inventories**

Inventories at the end of each period were as follows:

(In Millions)	Oct. 1, 2011	Dec. 25, 2010
Raw materials	\$ 614	\$ 471
Work in process	1,494	1,887
Finished goods	1,851	1,399
<b>Total inventories</b>	<b>\$ 3,959</b>	<b>\$ 3,757</b>

**Note 9: Derivative Financial Instruments**

Our primary objective for holding derivative financial instruments is to manage currency exchange rate risk and interest rate risk, and, to a lesser extent, equity market risk and commodity price risk. We currently do not hold derivative instruments for the purpose of managing credit risk since we limit the amount of credit exposure to any one counterparty and generally enter into derivative transactions with high-credit-quality counterparties. We also enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. For presentation on our consolidated condensed balance sheets, we do not offset fair value amounts recognized for derivative instruments under master netting arrangements.

**Currency Exchange Rate Risk**

We are exposed to currency exchange rate risk and generally hedge our exposures with currency forward contracts, currency options, or currency interest rate swaps. Substantially all of our revenue is transacted in U.S. dollars. However, a significant amount of our operating expenditures and capital purchases are incurred in or exposed to other currencies, primarily the Japanese yen, the euro, and the Israeli shekel. We have established balance sheet and forecasted transaction currency risk management programs to protect against fluctuations in fair value and the volatility of future cash flows caused by changes in exchange rates. Our non-U.S.-dollar-denominated investments in debt instruments and loans receivable are generally hedged with offsetting currency forward contracts or currency interest rate swaps. These programs reduce, but do

not entirely eliminate, the impact of currency exchange movements.

Our currency risk management programs include:

*Currency derivatives with cash flow hedge accounting designation* that utilize currency forward contracts and currency options to hedge exposures to the variability in the U.S.-dollar equivalent of anticipated non-U.S.-dollar-denominated cash flows. These instruments generally mature within 12 months. All of our currency forward contracts are settled at maturity involving one cash-payment exchange. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) and reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and in the same line item on the consolidated condensed statements of income as the impact of the hedged transaction.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

*Currency derivatives without hedge accounting designation* that utilize currency forward contracts, or currency interest rate swaps to economically hedge the functional currency equivalent cash flows of recognized monetary assets and liabilities, non-U.S.-dollar-denominated debt instruments classified as trading assets, and hedges of non-U.S.-dollar-denominated loans receivable recognized at fair value. The majority of these instruments mature within 12 months. The currency interest rate swaps are settled at various interest payment times involving cash payments at each interest and principal payment date with the majority of the contracts having quarterly payments. Changes in the U.S.-dollar-equivalent cash flows of the underlying assets and liabilities are approximately offset by the changes in fair values of the related derivatives. We record net gains or losses in the line item on the consolidated condensed statements of income most closely associated with the related exposures, primarily in interest and other, net, except for equity-related gains or losses, which we primarily record in gains (losses) on other equity investments, net.

**Interest Rate Risk**

Our primary objective for holding investments in debt instruments is to preserve principal while maximizing yields. We generally swap the returns on our investments in fixed-rate debt instruments with remaining maturities longer than six months into U.S.-dollar three-month LIBOR-based returns, unless management specifically approves otherwise. These swaps are settled at various interest payment times involving cash payments at each interest and principal payment date, with the majority of the contracts having quarterly payments.

Our interest rate risk management programs include:

*Interest rate derivatives with cash flow hedge accounting designation* that utilize interest rate swap agreements to modify the interest characteristics of debt instruments. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) and reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and in the same line item on the consolidated condensed statements of income as the impact of the hedged transaction.

*Interest rate derivatives without hedge accounting designation* that utilize interest rate swaps and currency interest rate swaps in economic hedging transactions, including hedges of non-U.S.-dollar-denominated debt instruments classified as trading assets and hedges of non-U.S.-dollar-denominated loans receivable recognized at fair value. Floating interest rates on the swaps are reset on a monthly, quarterly, or semiannual basis. Changes in fair value of the debt instruments classified as trading assets and hedges of loans receivable recognized at fair value are generally offset by changes in fair value of the related derivatives, both of which are recorded in interest and other, net.

**Equity Market Risk**

Our marketable investments include marketable equity securities and equity derivative instruments. To the extent that our marketable equity securities have strategic value, we typically do not attempt to reduce or eliminate our equity market exposure through hedging activities. We may enter into transactions to reduce or eliminate the equity market risks for our investments in strategic equity derivative instruments. For securities that we no longer consider strategic, we evaluate legal, market, and economic factors in our decision on the timing of disposal and whether it is possible and appropriate to hedge the equity market risk. Our equity market risk management program includes equity derivatives without hedge accounting designation that utilize warrants, equity options, or other equity derivatives. We recognize changes in the fair value of such derivatives in gains (losses) on other equity investments, net. We also utilize total return swaps to offset changes in liabilities related to the equity market risks of certain deferred compensation arrangements. Gains and losses from changes in fair value of these total return swaps are generally offset by the gains and losses on the related liabilities, which are both recorded in cost of sales and operating expenses.

In the second quarter of 2010, we sold our ownership interest in Numonyx to Micron for consideration consisting of shares of Micron. We also entered into equity option transactions that economically hedged a portion of the ownership interest in Micron that we acquired. In the second quarter of 2011, we sold our remaining ownership interest in Micron and the related equity options matured.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

*Commodity Price Risk*

We operate facilities that consume commodities and have established forecasted transaction risk management programs to protect against fluctuations in fair value and the volatility of future cash flows caused by changes in commodity prices, such as those for natural gas. These programs reduce, but do not always entirely eliminate, the impact of commodity price movements.

Our commodity price risk management program includes commodity derivatives with cash flow hedge accounting designation that utilize commodity swap contracts to hedge future cash flow exposures to the variability in commodity prices. These instruments generally mature within 12 months. For these derivatives, we report the after-tax gain (loss) from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) and reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same line item on the consolidated condensed statements of income as the impact of the hedged transaction.

*Volume of Derivative Activity*

Total gross notional amounts for outstanding derivatives (recorded at fair value) were as follows:

(In Millions)	Oct. 1, 2011	Dec. 25, 2010	Sept. 25, 2010
Currency forwards	\$ 9,902	\$ 8,502	\$ 7,272
Interest rate swaps	2,001	2,166	2,208
Currency interest rate swaps	1,870	2,259	2,189
Embedded debt derivatives	3,600	3,600	3,600
Total return swaps	731	627	550
Equity options	31	496	501
Currency options		94	94
Other	136	66	65
<b>Total</b>	<b>\$ 18,271</b>	<b>\$ 17,810</b>	<b>\$ 16,479</b>

The gross notional amounts for currency forwards, currency interest rate swaps, and currency options (presented by currency) were as follows:

(In Millions)	Oct. 1, 2011	Dec. 25, 2010	Sept. 25, 2010
Euro	\$ 3,958	\$ 4,445	\$ 4,122
Japanese yen	3,464	3,440	2,954
Israeli shekel	1,987	1,191	845
Chinese yuan	606	347	289
Malaysian ringgit	549	382	278
British pound sterling	371	424	430
Other	837	626	637
<b>Total</b>	<b>\$ 11,772</b>	<b>\$ 10,855</b>	<b>\$ 9,555</b>

*Credit-Risk-Related Contingent Features*

As of October 1, 2011 and December 25, 2010, we did not have any derivative instruments that contain credit-risk-related contingent features, such as provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies.







Edgar Filing: INTEL CORP - Form 10-Q

Other		(2)	Cost of sales		1
<b>Total</b>	<b>\$</b>	<b>(101)</b>	<b>\$</b>	<b>182</b>	<b>\$ 54 \$ 4</b>

(In Millions)	YTD20111		YTD20111	YTD20111					
	Gains (Losses)		Gains (Losses) Reclassified from Accumulated OCI into Income by Derivative Instrument Type (Effective Portion)	YTD 2011	YTD 2010				
	Recognized in OCI on Derivatives (Effective Portion)					Location			
Currency forwards	\$	155	\$	6	Cost of sales	\$	114	\$	32
					Research and development		31		21
					Marketing, general and administrative		25		2
Other		2		1	Cost of sales		2		(2)
<b>Total</b>	<b>\$</b>	<b>157</b>	<b>\$</b>	<b>7</b>		<b>\$</b>	<b>172</b>	<b>\$</b>	<b>53</b>

Gains and losses on derivative instruments in cash flow hedging relationships related to hedge ineffectiveness and amounts excluded from effectiveness testing were insignificant during all periods presented in the preceding tables. We estimate that we will reclassify approximately \$27 million (before taxes) of net derivative gains included in other accumulated comprehensive income (loss) into earnings within the next 12 months. For all periods presented, there was an insignificant impact on results of operations from discontinued cash flow hedges as a result of forecasted transactions that did not occur.



## Edgar Filing: INTEL CORP - Form 10-Q

These joint ventures are variable interest entities. All costs of the joint ventures will be passed on to Micron and Intel through our purchase agreements. IMFT and IMFS are dependent upon Micron and Intel for any additional cash requirements. Our known maximum exposure to loss approximated the carrying value of our investment balance in IMFT/IMFS as of October 1, 2011. Except for the amount due to IMFT/IMFS for product purchases and services, we did not have any additional liabilities recognized on our consolidated condensed balance sheets in connection with our interests in these joint ventures as of October 1, 2011. Future cash calls could increase our investment balance and the related exposure to loss. Potential future losses could be higher than the carrying amount of our investment, as Intel and Micron are liable for other future operating costs or obligations of IMFT/IMFS. Finally, as we are currently committed to purchasing 49% of IMFT's and 29% of IMFS's production output and production-related services, we may be required to purchase products at a cost in excess of realizable value. Our contractual commitment to purchase product output and fund production-related services adjusts to changes in our ownership percentage on a lag.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Our portion of IMFT/IMFS costs, primarily related to product purchases and production-related services, was approximately \$255 million during the third quarter of 2011 and approximately \$725 million during the first nine months of 2011 (approximately \$200 million during the third quarter of 2010 and approximately \$580 million during the first nine months of 2010). The amount due to IMFT/IMFS for product purchases and services provided was approximately \$155 million as of October 1, 2011 (approximately \$105 million as of December 25, 2010). During the first nine months of 2011, \$172 million was returned to Intel by IMFT/IMFS, which is reflected as a return of equity method investment within investing activities on the consolidated condensed statements of cash flows (\$151 million during the first nine months of 2010).

Under the accounting standards for consolidating variable interest entities, the consolidating investor is the entity with the power to direct the activities of the venture that most significantly impact the venture's economic performance and with the obligation to absorb losses or the right to receive benefits from the venture that could potentially be significant to the venture. We have determined that we do not have both of these characteristics and, therefore, we account for our interests using the equity method of accounting.

*Intel-GE Care Innovations, LLC*

In the first quarter of 2011, Intel and General Electric Company (GE) formed an equally owned joint venture, Intel-GE Care Innovations, LLC (Care Innovations), in the healthcare industry that focuses on independent living and delivery of health-related services via telecommunications. The company was formed by combining assets of GE Healthcare's Home Health division and Intel's Digital Health Group. As a result of the formation of Care Innovations, we recognized a gain of \$164 million in the first quarter of 2011 that is recorded in interest and other, net. The carrying value of our investment in Care Innovations was \$149 million as of October 1, 2011 and is classified in other long-term assets.

Care Innovations is dependent upon Intel and GE for any additional cash requirements and, therefore, is a variable interest entity. Our known maximum exposure to loss approximated the carrying value of our investment balance in Care Innovations as of October 1, 2011. In addition to the potential loss of our existing investment, our actual losses could be higher, as we are liable to contribute additional future funding up to \$65 million if Care Innovations meets established milestones.

Intel and GE share the power to direct all of Care Innovations' activities that most significantly impact its economic performance. As a result, we account for our interests in Care Innovations under the equity method of accounting.

**Note 12: Gains (Losses) on Equity Method Investments, Net**

Gains (losses) on equity method investments, net included:

	\$ 243	\$ 243	\$ 243	\$ 243
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Oct. 1,</b>	<b>Sept.</b>	<b>Oct. 1,</b>	<b>Sept. 25,</b>
(In Millions)	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Equity method losses, net	\$ (63)	\$ (28)	\$ (192)	\$ (72)
Impairment charges				(10)
Other, net	23	154	44	245
<b>Total gains (losses) on equity method investments, net</b>	<b>\$ (40)</b>	<b>\$ 126</b>	<b>\$ (148)</b>	<b>\$ 163</b>

**Note 13: Gains (Losses) on Other Equity Investments, Net**

Gains (losses) on other equity investments, net included:

Edgar Filing: INTEL CORP - Form 10-Q

(In Millions)	\$ 243		\$ 243	
	Three Months Ended		Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010	Oct. 1, 2011	Sept. 25, 2010
Impairment charges	\$ (79)	\$ (32)	\$ (102)	\$ (85)
Gains on sales, net	189	22	276	125
Other, net	22	(39)	69	36
<b>Total gains (losses) on other equity investments, net</b>	<b>\$ 132</b>	<b>\$ (49)</b>	<b>\$ 243</b>	<b>\$ 76</b>

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

**Note 14: Interest and Other, Net**

The components of interest and other, net were as follows:

(In Millions)	Three Months Ended		Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010	Oct. 1, 2011	Sept. 25, 2010
Interest income	\$ 22	\$ 35	\$ 70	\$ 90
Interest expense			(6)	
Other, net	(7)	3	157	(12)
<b>Total interest and other, net</b>	<b>\$ 15</b>	<b>\$ 38</b>	<b>\$ 221</b>	<b>\$ 78</b>

In the first quarter of 2011, we recognized a gain upon formation of the Intel and GE joint venture, Care Innovations, of \$164 million, included within other, net, in the table above. See Note 11: Equity Method Investments, for further information.

**Note 15: Acquisitions****McAfee, Inc.**

On February 28, 2011, we completed the acquisition of McAfee by acquiring all issued and outstanding common shares in exchange for cash. The acquired company will continue to operate as McAfee and offer products for endpoint security, system security, consumer security, network security, and risk and compliance. In addition to managing the existing McAfee business, the objective of the acquisition is to accelerate and enhance the combination of hardware and software security solutions, improving the overall security of our platforms.

Total consideration to acquire McAfee was \$6.7 billion (net of \$943 million of cash and cash equivalents acquired) and comprised the following:

(In Millions)	
Cash	\$ 6,652
Share-based awards assumed	48
<b>Total</b>	<b>\$ 6,700</b>

The allocation of purchase consideration to assets and liabilities is not yet finalized. The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary purchase price allocation that are not yet finalized are the determination of the tax basis of certain assets and liabilities, the determination of certain tax carry forwards, residual goodwill, and the allocation of goodwill to our reporting units. Reporting units are equivalent to our operating segments. The preliminary fair values of the assets acquired and liabilities assumed by major class in the acquisition of McAfee were recognized as follows:

(In Millions)	
Marketable debt securities	\$ 329
Goodwill	4,299
Identified intangible assets	3,552



Edgar Filing: INTEL CORP - Form 10-Q

Deferred tax assets	738
Other assets	417
Deferred income	(1,049)
Deferred tax liabilities	(1,191)
Other liabilities	(395)
<b>Total</b>	<b>\$ 6,700</b>

The preliminary goodwill of \$4.3 billion arising from the acquisition is primarily attributed to the assembled workforce of McAfee and synergies to enable the combination of security and hardware from a single company to protect online devices. Substantially all of the goodwill recognized is not expected to be deductible for tax purposes. Goodwill for the McAfee acquisition has not yet been assigned to our operating segments. For further information, see Note 17: Goodwill.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

The identified intangible assets assumed in the acquisition of McAfee were recognized as follows based upon their fair values as of February 28, 2011:

	Fair Value (In Millions)	Estimated Useful Life (In Years)
Developed technology	\$ 1,221	4
Customer relationships	1,418	2.7
<b>Total identified intangible assets subject to amortization</b>	<b>\$ 2,639</b>	
In-process research and development	92	
Trade names	821	
<b>Total identified intangible assets</b>	<b>\$ 3,552</b>	

Acquired developed technology represents the fair values of McAfee products that have reached technological feasibility and are a part of McAfee's product offerings. Customer relationships represent the fair values of the underlying relationships and agreements with McAfee's customers. In-process research and development represents the fair values of incomplete McAfee research and development projects that had not reached technological feasibility as of the date of acquisition. In the future, the fair value of each project at the acquisition date will be either amortized or impaired depending on whether the project is completed or abandoned. Trade names are indefinite lived intangible assets and represent the fair values of brand and name recognition associated with the marketing of McAfee's products and services.

**Other 2011 Acquisitions**

During the first nine months of 2011, in addition to the McAfee acquisition, we completed eleven acquisitions qualifying as business combinations in exchange for total consideration of \$1.9 billion, substantially all cash consideration. Total net cash consideration to acquire the Wireless Solutions (WLS) business of Infineon Technologies AG, which operates as Intel Mobile Communications, was \$1.4 billion. The WLS business offers mobile phone components such as baseband processors, radio frequency transceivers, and power management chips. In addition to managing the existing WLS business, the objective of the acquisition is to provide solutions that enable wireless connectivity for a broad range of computing applications.

The allocation of purchase consideration to assets and liabilities acquired in the acquisition of the WLS business is not yet finalized. The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary purchase price allocation that are not yet finalized are the valuation of net tangible assets acquired and residual goodwill. The preliminary fair values of the assets acquired and liabilities assumed by major class in the acquisitions completed during the first nine months of 2011, excluding McAfee, were allocated as follows:

(In Millions)	
Fair value of net tangible assets acquired	\$ 202
Goodwill	353
Identified intangible assets	1,332
<b>Total</b>	<b>\$ 1,887</b>

For the information on the assignment of preliminary goodwill for the acquisitions, see Note 17: Goodwill.

## Edgar Filing: INTEL CORP - Form 10-Q

The identified intangible assets assumed in the acquisitions completed during the first nine months of 2011, excluding McAfee, were recognized as follows:

	<b>Fair Value (In Millions)</b>	<b>Estimated Useful Life (In Years)</b>
Developed technology	\$ 1,054	3 9
Customer relationships	116	5 8
Other intangible assets	43	2 5
<b>Total identified intangible assets subject to amortization</b>	<b>\$ 1,213</b>	
In-process research and development	119	
<b>Total identified intangible assets</b>	<b>\$ 1,332</b>	

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Acquired developed technology represents the fair values of the acquirees' products that have reached technological feasibility and are a part of the acquirees' product lines. Customer relationships represent the fair values of the underlying relationships and agreements with the acquirees' customers. In-process research and development represents the fair values of incomplete research and development projects that had not reached technological feasibility as of the date of acquisition.

**Actual and Pro Forma Results of Acquirees**

Net revenue and net income attributable to acquisitions completed during the first nine months of 2011 have been included in our consolidated condensed statements of income from their respective acquisition dates to the period ended October 1, 2011. The acquisitions completed during the first nine months of 2011 were not individually significant to our consolidated condensed results of operations, however, they were significant in the aggregate. For the three and nine months ended October 1, 2011, the results of the businesses acquired in 2011 contributed approximately \$1.1 billion and \$2.7 billion, respectively, to our net revenue and reduced our net income by approximately \$35 million and \$155 million, respectively; substantially all of these impacts were attributable to McAfee and Intel Mobile Communications and include the impacts of the amortization of acquired identified intangible assets.

McAfee is a non-reportable operating segment and is aggregated with similar non-reportable operating segments within the software and services operating segments category for segment reporting purposes. Intel Mobile Communications is a non-reportable operating segment and is aggregated with similar non-reportable operating segments within the other Intel architecture operating segments category for segment reporting purposes. For further information, see Note 27: Operating Segment Information.

The unaudited pro forma financial results for the three and nine months ended October 1, 2011 and September 25, 2010 combine the historical results of Intel for the three and nine months ended October 1, 2011 and September 25, 2010, respectively, along with the historical results of the businesses acquired during the first nine months of 2011 for the three and nine months ended September 30, 2011 and September 30, 2010, respectively (due to differences in reporting periods). The results include the effects of pro forma adjustments as if businesses acquired in the first nine months of 2011 were acquired on December 27, 2009. The three and nine months ended September 25, 2010 pro forma results include nonrecurring adjustments of \$67 million and \$268 million, respectively, which reduce net income due to the revaluation of McAfee's historic deferred revenue to fair value.

The pro forma financial results presented below do not include any anticipated synergies or other expected benefits of the acquisitions. This is presented for informational purposes only and is not indicative of future operations or results that would have been achieved had the acquisitions been completed as of December 27, 2009.

(In Millions, Except Per Share Amounts)	Three Months Ended		Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010	Oct. 1, 2011	Sept. 25, 2010
Net revenue	\$ 14,272	\$ 12,134	\$ 40,803	\$ 34,728
Net income	\$ 3,492	\$ 2,939	\$ 9,684	\$ 8,017
Diluted earnings per share	\$ 0.65	\$ 0.52	\$ 1.77	\$ 1.41

**Note 16: Divestitures**

In the first quarter of 2011, we completed the divestiture of our Digital Health Group by entering into an agreement with GE to form an equally owned joint venture to create a new healthcare company focused on independent living and delivery of health-related services via telecommunications. The new company, Care Innovations, was formed by combining assets of GE Healthcare's Home Health division and Intel's Digital Health Group. During the first quarter of 2011, as a result of the formation of Care Innovations, we recognized a gain of \$164 million, within interest and other, net. For further information, see Note 11: Equity Method Investments.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

**Note 17: Goodwill**

Goodwill activity for the first nine months of 2011 was as follows:

(In Millions)	PC Client Group	Data Center Group	Other Intel Architecture Operating Segments	Software and Services Operating Segments	Unallocated	Total
<b>December 25, 2010</b>	<b>\$ 2,234</b>	<b>\$ 1,459</b>	<b>\$ 582</b>	<b>\$ 256</b>	<b>\$</b>	<b>\$ 4,531</b>
Additions due to McAfee acquisition					4,299	4,299
Additions due to other acquisitions	14	94	177	28	40	353
Transfers	(86)		86			
Effect of exchange rate fluctuations					(45)	(45)
<b>October 1, 2011</b>	<b>\$ 2,162</b>	<b>\$ 1,553</b>	<b>\$ 845</b>	<b>\$ 284</b>	<b>\$ 4,294</b>	<b>\$ 9,138</b>

During the first quarter of 2011, we formed the Netbook and Tablet Group, which includes microprocessors and related chipsets designed for the netbook and tablet market segments. Due to the formation of this new operating segment, goodwill was transferred from our PC Client Group to our Netbook and Tablet Group as shown in the preceding table. Our Netbook and Tablet Group is included in the other Intel architecture operating segments category in the preceding table.

During the first quarter of 2011, we completed the acquisition of McAfee. The goodwill recognized from this acquisition is unallocated to date. We will use information from our annual planning process, which will be completed later this year, to measure the synergistic value that the McAfee acquisition creates for operating segments other than McAfee. The substantial majority of goodwill recognized from other acquisitions was allocated to Intel Mobile Communications, the Data Center Group, the Ultra-Mobility Group, the Software and Services Group, and the PC Client Group. Intel Mobile Communications and the Ultra-Mobility Group are included in the other Intel architecture operating segments category in the preceding table, while our Software and Services Group is included in the software and services operating segments category. The remaining goodwill from other acquisitions is unallocated to date as we continue to measure the synergistic value that the acquisitions create for our individual operating segments. For further information about our acquisitions during the first nine months of 2011, see Note 15: Acquisitions.

No goodwill was impaired during the first nine months of 2011 and 2010, and the accumulated impairment losses as of October 1, 2011 were \$713 million: \$341 million associated with our PC Client Group, \$279 million associated with our Data Center Group, and \$93 million associated with other Intel architecture operating segments. The accumulated impairment losses as of December 25, 2010 were \$713 million: \$355 million associated with our PC Client Group, \$279 million associated with our Data Center Group, and \$79 million associated with other Intel architecture operating segments.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

**Note 18: Identified Intangible Assets**

Identified intangible assets consisted of the following as of October 1, 2011 and December 25, 2010:

	\$(1,302)	\$(1,302)	\$(1,302)
		<b>October 1, 2011</b>	
(In Millions)	Gross Assets	Accumulated Amortization	Net
Acquisition-related developed technology	\$ 2,526	\$ (437)	\$ 2,089
Acquisition-related customer relationships	1,706	(187)	1,519
Acquisition-related trade names	65	(18)	47
Licensed technology	2,349	(660)	1,689
<b>Identified intangible assets subject to amortization</b>	<b>\$ 6,646</b>	<b>\$ (1,302)</b>	<b>\$ 5,344</b>
Acquisition-related trade names	812		812
Other intangible assets	289		289
<b>Identified intangible assets not subject to amortization</b>	<b>\$ 1,101</b>	<b>\$</b>	<b>\$ 1,101</b>
<b>Total identified intangible assets</b>	<b>\$ 7,747</b>	<b>\$ (1,302)</b>	<b>\$ 6,445</b>
	\$(1,302)	\$(1,302)	\$(1,302)
		<b>December 25, 2010</b>	
(In Millions)	Gross Assets	Accumulated Amortization	Net
Acquisition-related developed technology	\$ 235	\$ (97)	\$ 138
Acquisition-related customer relationships	152	(10)	142
Acquisition-related trade names	46	(10)	36
Licensed technology	1,204	(765)	439
<b>Identified intangible assets subject to amortization</b>	<b>\$ 1,637</b>	<b>\$ (882)</b>	<b>\$ 755</b>
Other intangible assets	105		105
<b>Total identified intangible assets</b>	<b>\$ 1,742</b>	<b>\$ (882)</b>	<b>\$ 860</b>

As a result of our acquisition of McAfee during the first quarter of 2011, we recorded \$3.6 billion of identified intangible assets. In addition, as a result of our other acquisitions during the first nine months of 2011, we recorded \$1.3 billion of identified intangible assets, most of which was from the acquisition of the WLS business of Infineon. For further information about identified intangible assets recorded as a result of acquisitions during the first nine months of 2011, see Note 15: Acquisitions.

In January 2011, we entered into a long-term patent cross-license agreement with NVIDIA. Under the agreement, we received a license to all of NVIDIA's patents while NVIDIA products are licensed to our patents, subject to exclusions for x86 products, certain chipsets, and certain flash memory technology products. The agreement also included settlement of the existing litigation between the companies as well as broad mutual general releases. We agreed to make payments totaling \$1.5 billion to NVIDIA over six years (\$300 million in each of January 2011, 2012, and 2013; and \$200 million in each of January 2014, 2015, and 2016), which resulted in a liability totaling approximately \$1.4 billion, on a discounted basis. In the fourth quarter of 2010, we recognized an expense of \$100 million related to the litigation settlement. In the first quarter of 2011, we recognized the remaining amount of \$1.3 billion as licensed technology which will be amortized into cost of sales over its estimated useful life of 17 years. As of October 1, 2011, the remaining liability of \$1.2 billion is classified within other accrued liabilities and other

## Edgar Filing: INTEL CORP - Form 10-Q

long-term liabilities, based on the expected timing of the underlying payments. The intangible asset and associated liability for future payments to NVIDIA are treated as a noncash transaction and, therefore, have no impact on our consolidated condensed statements of cash flows for the nine months ended October 1, 2011. These future payments will be treated as cash used for financing activities.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

For identified intangible assets that are subject to amortization, we recorded amortization expense on the consolidated condensed statements of income as follows:

(In Millions)	Remainder	Remainder Three Months Ended Oct. 1, 2011	Remainder Ended Sept. 25, 2010	Remainder Nine Months Ended Oct. 1, 2011	Remainder Ended Sept. 25, 2010
Acquisition-related developed technology	\$	135	\$ 16	\$ 345	\$ 48
Licensed technology		44	36	133	121
<b>Cost of sales</b>	<b>\$</b>	<b>179</b>	<b>\$ 52</b>	<b>\$ 478</b>	<b>\$ 169</b>
<b>Research and development (licensed technology)</b>	<b>\$</b>	<b>1</b>	<b>\$</b>	<b>\$ 1</b>	<b>\$</b>
Acquisition-related customer relationships	\$	73	\$ 2	\$ 180	\$ 5
Acquisition-related trade names		3	2	8	6
<b>Amortization of acquisition-related intangibles</b>	<b>\$</b>	<b>76</b>	<b>\$ 4</b>	<b>\$ 188</b>	<b>\$ 11</b>

Based on the identified intangible assets that are subject to amortization as of October 1, 2011, we expect future amortization expense to be as follows:

(In Millions)	Remainder of 2011	2012	2013	2014	2015
Acquisition-related developed technology	\$ 134	\$ 518	\$ 503	\$ 484	\$ 212
Licensed technology	44	169	152	141	123
<b>Cost of sales</b>	<b>\$ 178</b>	<b>\$ 687</b>	<b>\$ 655</b>	<b>\$ 625</b>	<b>\$ 335</b>
<b>Research and development (licensed technology)</b>	<b>\$ 1</b>	<b>\$ 6</b>	<b>\$ 6</b>	<b>\$ 6</b>	<b>\$ 6</b>
Acquisition-related customer relationships	\$ 72	\$ 283	\$ 263	\$ 258	\$ 250
Acquisition-related trade names	2	10	10	10	9
<b>Amortization of acquisition-related intangibles</b>	<b>\$ 74</b>	<b>\$ 293</b>	<b>\$ 273</b>	<b>\$ 268</b>	<b>\$ 259</b>

**Note 19: Deferred Income**

Deferred income at the end of each period was as follows:

(In Millions)	Oct. 1, 2011	Dec. 25, 2010
Deferred income on shipments of components to distributors	\$ 833	\$ 622
Deferred income from software and services operating segments	1,084	125



Edgar Filing: INTEL CORP - Form 10-Q

<b>Current deferred income</b>	<b>\$</b>	<b>1,917</b>	<b>\$</b>	<b>747</b>
Non-current deferred income from software and services operating segments		381		21
<b>Total deferred income</b>	<b>\$</b>	<b>2,298</b>	<b>\$</b>	<b>768</b>

We classify non-current deferred income from the software and services operating segments in other long-term liabilities.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

**Note 20: Chipset Design Issue**

In January 2011, as part of our ongoing quality assurance procedures, we identified a design issue with the Intel® 6 Series Express Chipset family (formerly code-named Cougar Point). The issue affected chipsets sold in the fourth quarter of 2010 and January 2011. We subsequently implemented a silicon fix, and began shipping the updated version of the affected chipset in February 2011. We estimate that the total cost to repair and replace affected materials and systems, located with customers and in the market, will be \$733 million. We recorded a charge of \$311 million in the fourth quarter of 2010, which comprised \$67 million in product costs for the affected chipsets and \$244 million to establish a product accrual for this issue. We recognized a charge of \$343 million in the first quarter of 2011, primarily related to an additional product accrual for the estimated costs to repair and replace affected materials and systems associated with products sold subsequent to December 25, 2010. In the second quarter of 2011, we recognized an additional \$79 million charge as we finalized agreements with customers for reimbursement to repair and replace affected materials and systems. Therefore, we do not expect to have any significant future adjustments to our estimate. The charges incurred in the first half of 2011 are reflected in the results of the PC Client Group operating segment. As of October 1, 2011, the remaining product accrual for the chipset design issue was \$144 million and is classified within other accrued liabilities.

**Note 21: Borrowings***Short-Term Debt*

We have an ongoing authorization from our Board of Directors to borrow up to \$3.0 billion, including through the issuance of commercial paper. Maximum borrowings under our commercial paper program during the first nine months of 2011 were \$1.4 billion, although no commercial paper remained outstanding as of October 1, 2011.

*Long-Term Debt**Senior Notes*

In the third quarter of 2011, we issued \$5.0 billion aggregate principal amount of senior unsecured notes (the notes). The outstanding balance for the notes included in long-term debt was as follows.

(In Millions)	October 1, 2011
1.95% Senior Notes due October 1, 2016	\$ 1,498
3.30% Senior Notes due October 1, 2021	1,995
4.80% Senior Notes due October 1, 2041	1,489
<b>Total</b>	<b>\$ 4,982</b>

The notes bear a fixed rate of interest payable semiannually on April 1 and October 1 of each year, beginning on April 1, 2012. We may redeem the notes, in whole or in part, at any time at our option at specified redemption prices. The notes rank equally in right of payment with all of our other existing and future senior unsecured indebtedness and will effectively rank junior to all liabilities of our subsidiaries.

The notes were issued primarily to repurchase shares of our common stock pursuant to our common stock repurchase program, and for general corporate purposes.

*Convertible Debentures*

In 2009, we issued \$2.0 billion of junior subordinated convertible debentures (the 2009 debentures) due in 2039. In 2005, we issued \$1.6 billion of junior subordinated convertible debentures (the 2005 debentures) due in 2035. The conversion rates for the 2009 and 2005 debentures adjust for certain events outlined in the indenture governing the debentures, such as quarterly dividend distributions in excess of \$0.14 per share and \$0.10 per share, for the 2009 and 2005 debentures, respectively. As of October 1, 2011, the conversion rate for the 2009 debentures was 44.55

## Edgar Filing: INTEL CORP - Form 10-Q

shares of common stock per \$1,000 principal amount of debentures, representing an effective conversion price of approximately \$22.45 per share of common stock (as of December 25, 2010, the conversion rate was 44.09 shares of common stock per \$1,000 principal amount of debentures, representing an effective conversion price of approximately \$22.68 per share of common stock). As of October 1, 2011, the conversion rate for the 2005 debentures was 32.94 shares of common stock per \$1,000 principal amount of debentures, representing an effective conversion price of approximately \$30.36 per share of common stock (as of December 25, 2010, the conversion rate was 32.52 shares of common stock per \$1,000 principal amount of debentures, representing an effective conversion price of approximately \$30.75 per share of common stock).

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

**Note 22: Employee Equity Incentive Plans**

Our equity incentive plans are broad-based, long-term programs intended to attract and retain talented employees and align stockholder and employee interests.

In connection with our completed acquisition of McAfee, we assumed their equity incentive plans and issued replacement awards in the first quarter of 2011. The stock options and restricted stock units issued generally retain the terms and conditions of the respective plans under which they were originally granted. We will not grant additional shares under these plans.

In May 2011, stockholders approved an extension of the 2006 Equity Incentive Plan (2006 Plan). Stockholders approved 168 million additional shares for issuance, increasing the total shares of common stock available for issuance as equity awards to employees and non-employee directors to 596 million shares. The approval also extended the expiration date of the 2006 Plan to June 2014. The maximum shares to be awarded as non-vested shares (restricted stock) or non-vested share units (restricted stock units) was increased to 394 million shares. As of October 1, 2011, 308 million shares remained available for future grant under the 2006 Plan.

The 2006 Stock Purchase Plan allows eligible employees to purchase shares of our common stock at 85% of the value of our common stock on specific dates. Rights to purchase shares are granted during the first and third quarters of each year. In May 2011, stockholders approved an extension of the 2006 Stock Purchase Plan. Stockholders approved 133 million additional shares for issuance, increasing the total shares of common stock available for issuance to 373 million shares. The approval also extended the expiration date of the 2006 Stock Purchase Plan to August 2016. As of October 1, 2011, 254 million shares were available for issuance under the 2006 Stock Purchase Plan.

**Share-Based Compensation**

We recognized \$250 million of share-based compensation in the third quarter of 2011 and \$812 million for the first nine months of 2011 (\$224 million in the third quarter of 2010 and \$704 million for the first nine months of 2010).

We estimate the fair value of restricted stock unit awards with time-based vesting using the value of our common stock on the date of grant, reduced by the present value of dividends expected to be paid on our common stock prior to vesting. We estimate the fair value of market-based restricted stock units using a Monte Carlo simulation model on the date of grant. We based the weighted average estimated values of restricted stock unit grants, as well as the weighted average assumptions that we used in calculating the fair value, on estimates at the date of grant, as follows:

	Three Months Ended		Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010	Oct. 1, 2011	Sept. 25, 2010
Estimated values	\$ 21.37	\$ 20.58	\$ 19.80	\$ 22.64
Risk-free interest rate	0.5%	0.6%	0.7%	1.1%
Dividend yield	3.6%	2.9%	3.4%	2.6%
Volatility	26%	33%	27%	31%

We use the Black-Scholes option pricing model to estimate the fair value of options granted under our equity incentive plans and rights to acquire stock granted under our stock purchase plan. We based the weighted average estimated values of employee stock option grants and rights granted under the stock purchase plan, as well as the weighted average assumptions used in calculating these values, on estimates at the date of grant, as follows:

Stock Options				Stock Purchase Plan			
Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
Oct. 1,	Sept. 25, 2010	Oct. 1,	Sept. 25, 2010	Oct. 1,	Sept. 25, 2010	Oct. 1,	Sept. 25, 2010

Edgar Filing: INTEL CORP - Form 10-Q

	2011		2011		2011		2011	
Estimated values	\$ 3.82	\$ 5.13	\$ 3.88	\$ 4.84	\$ 4.90	\$ 4.82	\$ 4.69	\$ 4.71
Expected life (in years)	5.4	4.8	5.3	4.9	0.5	0.5	0.5	0.5
Risk-free interest rate	1.7%	2.5%	2.2%	2.6%	0.2%	0.3%	0.2%	0.2%
Volatility	26%	33%	26%	28%	28%	32%	26%	32%
Dividend yield	3.6%	2.9%	3.4%	2.7%	3.7%	3.0%	3.6%	3.1%

Under the stock purchase plan, rights to purchase shares are only granted during the first and third quarters of each year.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

*Restricted Stock Unit Awards*

Activity with respect to outstanding restricted stock units (RSUs) for the first nine months of 2011 was as follows:

(In Millions, Except Per RSU Amounts)	Exercise Price Number of RSUs	Exercise Price Weighted Average Grant-Date Fair Value
<b>December 25, 2010</b>	<b>99.8</b>	<b>\$ 18.56</b>
Granted	41.8	\$ 19.80
Assumed in acquisition	5.8	\$ 20.80
Vested	(34.3)	\$ 18.51
Forfeited	(3.7)	\$ 19.03
<b>October 1, 2011</b>	<b>109.4</b>	<b>\$ 19.16</b>

The aggregate fair value of awards that vested during the first nine months of 2011 was \$679 million, which represents the market value of Intel common stock on the date that the restricted stock units vested. The grant date fair value of awards that vested during the first nine months of 2011 was \$635 million. The number of restricted stock units vested includes shares that we withheld on behalf of employees to satisfy the minimum statutory tax withholding requirements. As of October 1, 2011, 4 million of the outstanding restricted stock units were market-based restricted stock units.

*Stock Option Awards*

Activity with respect to outstanding stock options for the first nine months of 2011 was as follows:

(In Millions, Except Per Option Amounts)	Exercise Price Number of Options	Exercise Price Weighted Average Exercise Price
<b>December 25, 2010</b>	<b>386.4</b>	<b>\$ 20.45</b>
Granted	14.1	\$ 21.39
Assumed in acquisition	11.8	\$ 15.95
Exercised	(32.3)	\$ 18.85
Cancelled and forfeited	(7.8)	\$ 20.40
Expired	(17.9)	\$ 24.96
<b>October 1, 2011</b>	<b>354.3</b>	<b>\$ 20.25</b>

Options exercisable as of:

December 25, 2010	263.0	\$ 21.03
October 1, 2011	237.3	\$ 20.70

During the first nine months of 2011, the aggregate intrinsic value of stock option exercises was \$120 million, which represents the difference between the exercise price and the value of Intel common stock at the time of exercise.

*Stock Purchase Plan*

## Edgar Filing: INTEL CORP - Form 10-Q

Employees purchased 18.5 million shares in the first nine months of 2011 (17.2 million shares in the first nine months of 2010) for \$318 million (\$281 million in the first nine months of 2010) under the 2006 Stock Purchase Plan.

### **Note 23: Common Stock Repurchases**

#### *Common Stock Repurchase Program*

We have an ongoing authorization, since October 2005, as amended, from our Board of Directors to repurchase up to \$45 billion in shares of our common stock in open market or negotiated transactions. This amount includes the \$10 billion increase in the authorization limit approved by our Board of Directors in September 2011. As of October 1, 2011, \$14.2 billion remained available for repurchase under the existing repurchase authorization limit. During the third quarter of 2011, we repurchased 186.2 million shares of common stock at a cost of \$4.0 billion. During the first nine months of 2011, we repurchased 468.6 million shares of common stock at a cost of \$10.0 billion. We did not make any common stock repurchases under our authorized plan during the first nine months of 2010. We have repurchased 3.9 billion shares at a cost of \$80 billion since the program began in 1990.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

*Restricted Stock Unit Withholdings*

We issue restricted stock units as part of our equity incentive plans. For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. During the first nine months of 2011, we withheld 9.5 million shares (9.3 million shares during the first nine months of 2010) to satisfy \$187 million (\$222 million during the first nine months of 2010) of employees' tax obligations. Although shares withheld are not issued, they are treated as common stock repurchases in our financial statements, as they reduce the number of shares that would have been issued upon vesting.

**Note 24: Earnings Per Share**

We computed our basic and diluted earnings per common share as follows:

(In Millions, Except Per Share Amounts)	Three Months Ended		Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010	Oct. 1, 2011	Sept. 25, 2010
<b>Net income available to common stockholders</b>	<b>\$ 3,468</b>	<b>\$ 2,955</b>	<b>\$ 9,582</b>	<b>\$ 8,284</b>
<b>Weighted average common shares outstanding basic</b>	<b>5,194</b>	<b>5,575</b>	<b>5,317</b>	<b>5,556</b>
Dilutive effect of employee equity incentive plans	93	67	96	87
Dilutive effect of convertible debt	53	52	53	52
<b>Weighted average common shares outstanding diluted</b>	<b>5,340</b>	<b>5,694</b>	<b>5,466</b>	<b>5,695</b>
<b>Basic earnings per common share</b>	<b>\$ 0.67</b>	<b>\$ 0.53</b>	<b>\$ 1.80</b>	<b>\$ 1.49</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.65</b>	<b>\$ 0.52</b>	<b>\$ 1.75</b>	<b>\$ 1.45</b>

We computed our basic earnings per common share using net income available to common stockholders and the weighted average number of common shares outstanding during the period. We computed diluted earnings per common share using net income available to common stockholders and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Net income available to participating securities was insignificant for all periods presented.

Potentially dilutive common shares from employee incentive plans are determined by applying the treasury stock method to the assumed exercise of outstanding stock options, the assumed vesting of outstanding restricted stock units, and the assumed issuance of common stock under the stock purchase plan. Potentially dilutive common shares are determined by applying the if-converted method for our 2005 debentures. However, as our 2009 debentures require settlement of the principal amount of the debt in cash upon conversion, with the conversion premium paid in cash or stock at our option, potentially dilutive common shares are determined by applying the treasury stock method.

For the third quarter of 2011, we excluded 104 million outstanding weighted average stock options (108 million for the first nine months of 2011) from the calculation of diluted earnings per common share because the exercise prices of these stock options were greater than or equal to the average market value of the common shares (200 million for the third quarter of 2010 and 168 million for the first nine months of 2010). These options could be included in the calculation in the future if the average market value of the common shares increases and is greater than the exercise price of these options. We also excluded our 2009 debentures from the calculation of diluted earnings per common share because the conversion option of the debentures was anti-dilutive. In the future, we could have potentially dilutive shares if the average market price is above the conversion price.



## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

**Note 25: Comprehensive Income**

The components of total comprehensive income were as follows:

(In Millions)	\$9,5820 Three Months Ended Oct. 1, 2011	\$9,5820 Sept. 25, 2010	\$9,5820 Nine Months Ended Oct. 1, 2011	\$9,5820 Sept. 25, 2010
Net income	\$ 3,468	\$ 2,955	\$ 9,582	\$ 8,284
Change in net unrealized holding gain (loss) on available-for-sale investments	(161)	137	(202)	175
Change in deferred tax asset valuation allowance	(54)	34	(68)	62
Change in net unrealized holding gain (loss) on derivatives	(134)	129	(29)	(45)
Change in net prior service cost	2		2	(40)
Change in actuarial loss	6		(7)	(14)
Change in net foreign currency translation adjustment	(157)		(61)	
<b>Total comprehensive income</b>	<b>\$ 2,970</b>	<b>\$ 3,255</b>	<b>\$ 9,217</b>	<b>\$ 8,422</b>

The components of accumulated other comprehensive income, net of tax, at the end of each period were as follows:

(In Millions)	\$3,468 Oct. 1, 2011	\$3,468 Dec. 25, 2010
Accumulated net unrealized holding gain (loss) on available-for-sale investments	\$ 199	\$ 401
Accumulated net change in deferred tax asset valuation allowance	135	203
Accumulated net unrealized holding gain (loss) on derivatives	98	127
Accumulated net prior service cost	(34)	(36)
Accumulated net actuarial loss	(369)	(362)
Accumulated net foreign currency translation adjustment	(61)	
<b>Total accumulated other comprehensive income (loss)</b>	<b>\$ (32)</b>	<b>\$ 333</b>

**Note 26: Contingencies****Legal Proceedings**

We are currently a party to various legal proceedings, including those noted in this section. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm the company's financial position, cash flows, or overall trends in results of operations, legal proceedings and related government investigations are subject to inherent uncertainties, and unfavorable rulings or other events could occur. Unfavorable resolutions could include substantial monetary damages, and in matters for which injunctive relief or other conduct remedies are sought, an injunction or other order prohibiting us from selling one or more products at all or in particular ways, precluding particular business practices, or requiring other remedies such as compulsory licensing of intellectual property. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on our business, results of operations, financial position, and overall trends. It is also possible that we could conclude it is in the best interests of our stockholders, employees, and customers to settle one or more such matters, and any such settlement could include substantial payments; however, we have not reached this conclusion with respect to any particular matter at this time.

## Edgar Filing: INTEL CORP - Form 10-Q

A number of proceedings generally have challenged and continue to challenge certain of our competitive practices. The allegations in these proceedings vary and are described in more detail in the following paragraphs, but in general contend that we improperly condition price rebates and other discounts on our microprocessors on exclusive or near-exclusive dealing by some of our customers; claim that our software compiler business unfairly prefers Intel microprocessors over competing microprocessors and that, through the use of our compiler and other means, we have caused inaccurate and misleading benchmark results concerning our microprocessors to be disseminated; allege that we unfairly controlled the content and timing of release of various standard computer interfaces developed by Intel in cooperation with other industry participants; and accuse us of engaging in various acts of improper competitive activity in competing against what is referred to as general-purpose graphics processing units, including certain licensing practices and our actions in connection with developing and disclosing potentially competitive technology.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

We believe that we compete lawfully and that our marketing, business, intellectual property, and other challenged practices benefit our customers and our stockholders, and we will continue to conduct a vigorous defense in these proceedings. While we have settled some of these matters, the distractions caused by challenges to our conduct from the remaining matters are undesirable, and the legal and other costs associated with defending and resolving our position have been and continue to be significant. We assume that these challenges could continue for a number of years and may require the investment of substantial additional management time and substantial financial resources to explain and defend our position.

*Government Competition Matters and Related Consumer Class Actions*

In 2001, the European Commission (EC) commenced an investigation regarding claims by Advanced Micro Devices, Inc. (AMD) that we used unfair business practices to persuade customers to buy our microprocessors. We have received numerous requests for information and documents from the EC and we have responded to each of those requests. The EC issued a Statement of Objections in July 2007 and held a hearing on that Statement in March 2008. The EC issued a Supplemental Statement of Objections in July 2008.

In May 2009, the EC issued a decision finding that we had violated Article 82 of the EC Treaty and Article 54 of the European Economic Area Agreement. In general, the EC found that we violated Article 82 (later renumbered as Article 102 by a new treaty) by offering alleged conditional rebates and payments that required our customers to purchase all or most of their x86 microprocessors from us. The EC also found that we violated Article 82 by making alleged payments to prevent sales of specific rival products. The EC imposed a fine in the amount of 1.06 billion (\$1.447 billion as of May 2009), which we subsequently paid during the third quarter of 2009, and also ordered us to immediately bring to an end the infringement referred to in the EC decision. In the second quarter of 2009, we recorded the related charge within marketing, general and administrative. We strongly disagree with the EC's decision, and we appealed the decision to the Court of First Instance (which has been renamed the General Court) in July 2009. The EC filed an answer to our reply brief in November 2010. The court's decision, after oral argument, is expected in late 2012 or early 2013.

The EC decision exceeds 500 pages and does not contain specific direction on whether or how we should modify our business practices. Instead, the decision states that we should cease and desist from further conduct that, in the EC's opinion, would violate applicable law. We have taken steps, which are subject to the EC's ongoing review, to comply with that decision pending appeal. We opened discussions with the EC to better understand the decision and to explain changes to our business practices. Based on our current understanding and expectations, we do not believe that any such changes will be material to our financial position, results, or cash flows.

In June 2005, we received an inquiry from the Korea Fair Trade Commission (KFTC) requesting documents from our Korean subsidiary related to marketing and rebate programs that we entered into with Korean PC manufacturers. In February 2006, the KFTC initiated an inspection of documents at our offices in Korea. In September 2007, the KFTC served on us an Examination Report alleging that sales to two customers during parts of 2002-2005 violated Korea's Monopoly Regulation and Fair Trade Act. In December 2007, we submitted our written response to the KFTC. In February 2008, the KFTC's examiner submitted a written reply to our response. In March 2008, we submitted a further response. In April 2008, we participated in a pre-hearing conference before the KFTC, and we participated in formal hearings in May and June 2008. In June 2008, the KFTC announced its intent to fine us approximately \$25 million for providing discounts to Samsung Electronics Co., Ltd. and TriGem Computer Inc. In November 2008, the KFTC issued a final written decision concluding that our discounts had violated Korean antitrust law and imposing a fine on us of approximately \$20 million, which we paid in January 2009. In December 2008, we appealed this decision by filing a lawsuit in the Seoul High Court seeking to overturn the KFTC's decision. We expect a decision from the court in 2012.

In November 2009, the State of New York filed a lawsuit against us in the U.S. District Court for the District of Delaware. The lawsuit alleges that we violated federal antitrust laws; the New York Donnelly Act, which prohibits contracts or agreements to monopolize; and the New York Executive Law, which proscribes underlying violations of federal and state antitrust laws. The lawsuit alleges that we engaged in a systematic worldwide campaign of illegal, exclusionary conduct to maintain monopoly power and prices in the market for x86 microprocessors through the use of various alleged actions, including exclusive or near-exclusive agreements from large computer makers in exchange for loyalty payments and bribes, and other alleged threats and retaliation. New York claims that our alleged actions harmed New York consumers, competition, and innovation. The complaint seeks a declaration that our alleged actions have violated the federal and New York antitrust laws and the New York Executive Law; an injunction to prevent further alleged unlawful acts; damages in an amount to be proven at trial based on alleged overcharges on purchases of computers containing Intel microprocessors by New York state agencies and non-state entities, as well as by individual New York consumers, trebled as provided for by law under the Sherman Act or Donnelly Act, restitution, and disgorgement; \$1 million in civil penalties for alleged violations of the Donnelly Act; and attorneys' fees and costs. We disagree with the State of New York's allegations and claims, and we intend to conduct a vigorous defense of the lawsuit. We filed our answer in January 2010, and the court has scheduled trial to

begin in this matter in February 2012.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

In December 2010, the State of New York requested the court's permission to amend its complaint to expand the scope of parties covered by its Donnelly Act and Executive Law claims to include small and medium businesses operating within the state of New York. We opposed that request, and in May 2011, the court denied the State of New York permission to amend its complaint. In May 2011, we filed three motions, the first seeking partial summary judgment on any claims for damages under the Sherman Act based on purchases of computers containing Intel microprocessors not made within four years of the filing of the complaint, and any claims for damages under the Donnelly Act and Executive Law based on purchases not made within three years of the filing of the complaint; the second seeking dismissal of all claims brought on behalf of non-State of New York public entities on the ground that the State of New York did not obtain proper requests to represent them; and the third seeking judgment on the pleadings on the ground that the State of New York cannot recover damages on behalf of New York consumers for certain claims. In October 2011, we filed two additional motions for summary judgment and a motion seeking to exclude the opinions and testimony of New York's economic expert. We seek summary judgment on the grounds that each of New York's claims lacks legal merit because our discounted prices challenged in the lawsuit were lawful and that New York cannot establish antitrust injury because, among other things, it has no evidence of any harm to competition from our alleged actions. Because resolution of these motions may materially impact the scope and nature of New York's claims, we are unable to make a reasonable estimate of the potential loss or range of losses, if any, arising from this litigation.

At least 82 separate class actions have been filed in the U.S. District Courts for the Northern District of California, Southern District of California, District of Idaho, District of Nebraska, District of New Mexico, District of Maine, and District of Delaware, as well as in various California, Kansas, and Tennessee state courts. These actions generally repeat the allegations made in a now-settled lawsuit filed against Intel by AMD in June 2005 in the U.S. District Court for the District of Delaware (AMD litigation). Like the AMD litigation, these class-action suits allege that Intel engaged in various actions in violation of the Sherman Act and other laws by, among other things, providing discounts and rebates to our manufacturer and distributor customers conditioned on exclusive or near exclusive dealings that allegedly unfairly interfered with AMD's ability to sell its microprocessors, interfering with certain AMD product launches, and interfering with AMD's participation in certain industry standards-setting groups. The class actions allege various consumer injuries, including that consumers in various states have been injured by paying higher prices for computers containing our microprocessors. We dispute the class-action claims and intend to defend the lawsuits vigorously.

All of the federal class actions and the Kansas and Tennessee state court class actions have been transferred by the Multidistrict Litigation Panel to the U.S. District Court in Delaware for all pretrial proceedings and discovery (MDL proceedings). The Delaware district court has appointed a Special Master to address issues in the MDL proceedings, as assigned by the court. In January 2010, the plaintiffs in the Delaware action filed a motion for sanctions for our alleged failure to preserve evidence. This motion largely copies a motion previously filed by AMD in the AMD litigation, which has settled. The plaintiffs in the MDL proceedings also moved for certification of a class of members who purchased certain personal computers containing products sold by Intel. In July 2010, the Special Master issued a Report and Recommendation (Class Report) denying the motion to certify a class. The MDL plaintiffs filed objections to the Special Master's Class Report, and a hearing on these objections was held in March 2011. The Delaware district court has not yet ruled on those objections. All California class actions have been consolidated in the Superior Court of California in Santa Clara County. The plaintiffs in the California actions have moved for class certification, which we are in the process of opposing. At our request, the court in the California actions has agreed to delay ruling on this motion until after the Delaware district court rules on the similar motion in the MDL proceedings. Based on the procedural posture and the nature of the cases, including, but not limited to, the fact that the Special Master's Class Report is on review in the Delaware district court, we are unable to make a reasonable estimate of the potential loss or range of losses, if any, arising from these matters.

*Lehman Matter*

In November 2009, representatives of the Lehman Brothers OTC Derivatives Inc. (LOTC) bankruptcy estate advised us informally that the estate was considering a claim against us arising from a 2008 contract between Intel and LOTC. Under the terms of the 2008 contract, Intel prepaid \$1.0 billion to LOTC, in exchange for which LOTC was required to purchase and deliver to Intel the number of shares of Intel common stock that could be purchased for \$1.0 billion at the discounted volume-weighted average price specified in the contract for the period September 2, 2008 to September 26, 2008. LOTC's performance under the contract was secured by \$1.0 billion of cash collateral. Under the terms of the contract, LOTC was obligated to deliver approximately 50 million shares of our common stock to us on September 29, 2008. LOTC failed to deliver any shares of our common stock, and we exercised our right to setoff against the \$1.0 billion collateral. LOTC has not initiated any action against us to date, but in February 2010, LOTC served a subpoena on us in connection with this transaction. In October 2010, LOTC demanded that Intel pay it at least \$417 million. In September 2010, we entered into an agreement with LOTC that tolled any applicable statutes of limitations for 90 days and precluded the parties from commencing any formal proceedings to prosecute any claims against each other in any forum during that period. The tolling agreement with LOTC was extended several times, but lapsed in June 2011. We continue to believe that we

## Edgar Filing: INTEL CORP - Form 10-Q

acted appropriately under our agreement with LOTC, and we intend to defend any claim to the contrary. No complaint has been filed and we are in the early stages of evaluating this dispute, and accordingly are unable to make a reasonable estimate of the potential loss or range of losses, if any, arising from this matter.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

*Frank T. Shum v. Intel Corporation, Jean-Marc Verdiell, and LightLogic, Inc.*

We acquired LightLogic, Inc. in May 2001. Frank Shum subsequently sued us, LightLogic, and LightLogic's founder, Jean-Marc Verdiell, claiming that much of LightLogic's intellectual property is based on alleged inventions that Shum conceived while he and Verdiell were partners at Radiance Design, Inc. Shum has alleged claims for fraud, breach of fiduciary duty, fraudulent concealment, and breach of contract. Shum also seeks alleged correction of inventorship of seven patents acquired by us as part of the LightLogic acquisition. In January 2005, the U.S. District Court for the Northern District of California denied Shum's inventorship claim, and thereafter granted our motion for summary judgment on Shum's remaining claims. In August 2007, the U.S. Court of Appeals for the Federal Circuit vacated the District Court's rulings and remanded the case for further proceedings. In October 2008, the District Court granted our motion for summary judgment on Shum's claims for breach of fiduciary duty and fraudulent concealment, but denied our motion on Shum's remaining claims. A jury trial on Shum's remaining claims took place in November and December 2008. In pretrial proceedings and at trial, Shum requested monetary damages against the defendants in amounts ranging from \$31 million to \$931 million, and his final request to the jury was for as much as \$175 million. Following deliberations, the jury was unable to reach a verdict on most of the claims. With respect to Shum's claim that he is the proper inventor on certain LightLogic patents now assigned to us, the jury agreed with Shum on some of those claims and was unable to reach a verdict regarding the remaining claims. In April 2009, the court granted defendants' motions for judgment as a matter of law. Shum appealed that ruling to the U.S. Court of Appeals for the Federal Circuit, which heard oral arguments in August 2010 and affirmed the trial court's orders in favor of Intel in December 2010. In January 2011, Shum petitioned the Federal Circuit for a re-hearing and re-hearing en banc. In February 2011, the Federal Circuit denied Shum's request. Shum petitioned the U.S. Supreme Court for review in May 2011, and we filed our response in August 2011. The U.S. Supreme Court denied certiorari in October 2011, ending the matter.

**Note 27: Operating Segment Information**

Our operating segments in effect as of October 1, 2011 include:

PC Client Group	Ultra-Mobility Group
Data Center Group	McAfee
Intel Mobile Communications	Wind River Software Group
Intelligent Systems Group	Software and Services Group
Netbook and Tablet Group	Non-Volatile Memory Solutions Group
Digital Home Group	

In the first quarter of 2011, we formed the Netbook and Tablet Group, which includes microprocessors and related chipsets designed for the netbook and tablet market segments, and we divested the Digital Health Group (for further information see Note 16: Divestitures). Prior-period amounts have been adjusted retrospectively to reflect these operating segment changes as well as other minor reorganizations. Additionally, in the first quarter of 2011, we formed the Intel Mobile Communications and McAfee operating segments as a result of acquisitions (for further information see Note 15: Acquisitions).

The Chief Operating Decision Maker (CODM) is our President and Chief Executive Officer. The CODM allocates resources to and assesses the performance of each operating segment using information about its revenue and operating income (loss).

Our PC Client Group and our Data Center Group are reportable operating segments. We aggregate and disclose the financial results of the following non-reportable operating segments within other Intel architecture operating segments: Intel Mobile Communications, Intelligent Systems Group (formerly known as the Embedded and Communications Group), Netbook and Tablet Group, Digital Home Group, and Ultra-Mobility Group. We also aggregate and disclose the financial results of the following non-reportable operating segments within software and services operating segments: McAfee, Wind River Software Group, and Software and Services Group. Each of these aggregated operating segments does not meet the quantitative thresholds to qualify as a reportable operating segment; however, we have elected to disclose the aggregation of these non-reportable operating segments. Revenue for our reportable and aggregated non-reportable operating segments is primarily related to the following product lines:

*PC Client Group.* Includes microprocessors and related chipsets and motherboards designed for the notebook and desktop (including high-end enthusiast PCs) market segments; and wireless connectivity products.

*Data Center Group.* Includes microprocessors and related chipsets and motherboards designed for the server, workstation, and storage computing market segments; and wired network connectivity products.

## Edgar Filing: INTEL CORP - Form 10-Q

*Other Intel architecture operating segments.* Includes mobile phone components such as baseband processors, radio frequency transceivers, and power management chips; microprocessors and related chipsets designed for embedded applications; microprocessors and related chipsets designed for the netbook and tablet market segments; products designed for the consumer electronics market segment; and products designed for the handheld market segment.

*Software and services operating segments.* Includes software products for endpoint security, system security, consumer security, network security, and risk and compliance from our McAfee business; software optimized products for the embedded and handheld market segments; and software products and services that promote Intel® architecture as the platform of choice for software development.



## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

We have sales and marketing, manufacturing, finance, and administration groups. Expenses for these groups are generally allocated to the operating segments, and the allocated expenses are included in the operating results reported below.

The All other category includes revenue, expenses, and charges such as:

- results of operations from our Non-Volatile Memory Solutions Group that includes NAND flash memory products for use in a variety of devices;
- a portion of profit-dependent compensation and other expenses not allocated to the operating segments;
- divested businesses for which discrete operating results are not reviewed by our CODM;
- results of operations of seed businesses that support our initiatives; and
- acquisition-related costs, including amortization and any impairment of acquisition-related intangibles and goodwill.

The CODM does not evaluate operating segments using discrete asset information. Operating segments do not record inter-segment revenue. We do not allocate gains and losses from equity investments, interest and other income, or taxes to operating segments. Although the CODM uses operating income to evaluate the segments, operating costs included in one segment may benefit other segments. The accounting policies for segment reporting are the same as for Intel as a whole.

Segment information is summarized as follows:

(In Millions)	Three Months Ended		Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010	Oct. 1, 2011	Sept. 25, 2010
<b>Net revenue</b>				
<b>PC Client Group</b>				
Microprocessor revenue	\$ 7,521	\$ 6,072	\$ 20,877	\$ 17,666
Chipsets, motherboard, and other revenue	1,896	1,666	5,482	4,948
	<b>9,417</b>	<b>7,738</b>	<b>26,359</b>	<b>22,614</b>
<b>Data Center Group</b>				
Microprocessor revenue	2,118	1,847	6,233	5,196
Chipsets, motherboard, and other revenue	394	339	1,179	975
	<b>2,512</b>	<b>2,186</b>	<b>7,412</b>	<b>6,171</b>
<b>Other Intel architecture operating segments</b>	<b>1,368</b>	<b>812</b>	<b>3,906</b>	<b>2,241</b>
<b>Software and services operating segments</b>	<b>541</b>	<b>66</b>	<b>1,292</b>	<b>189</b>
<b>All other</b>	<b>395</b>	<b>300</b>	<b>1,143</b>	<b>951</b>
<b>Total net revenue</b>	<b>\$ 14,233</b>	<b>\$ 11,102</b>	<b>\$ 40,112</b>	<b>\$ 32,166</b>
<b>Operating income (loss)</b>				
PC Client Group	\$ 4,014	\$ 3,345	\$ 10,841	\$ 9,765
Data Center Group	1,221	1,068	3,647	2,962
Other Intel architecture operating segments	(140)	92	(209)	194
Software and services operating segments	18	(36)	(48)	(128)
All other	(328)	(333)	(1,353)	(1,228)
<b>Total operating income (loss)</b>	<b>\$ 4,785</b>	<b>\$ 4,136</b>	<b>\$ 12,878</b>	<b>\$ 11,565</b>

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is provided in addition to the accompanying consolidated condensed financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

*Overview.* Discussion of our business and overall analysis of financial and other highlights affecting the company in order to provide context for the remainder of MD&A.

*Strategy.* Our overall strategy.

*Critical Accounting Estimates.* Accounting estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.

*Results of Operations.* An analysis of our financial results comparing the three and nine months ended October 1, 2011 to the three and nine months ended September 25, 2010. In the first quarter of 2011, we formed the Netbook and Tablet Group (NTG), which includes microprocessors and related chipsets designed for the netbook and tablet market segments. NTG results were previously included in the results of the PC Client Group and are now included in the other Intel architecture operating segments category. The analysis of our operating segment results of operations reflects this reorganization and prior-period amounts have been adjusted retrospectively.

*Business Outlook.* Our expectations for selected financial items for the fourth quarter of 2011 and the 2011 full year.

*Liquidity and Capital Resources.* An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition and potential sources of liquidity.

*Fair Value of Financial Instruments.* Discussion of the methodologies used in the valuation of our financial instruments.

The various sections of this MD&A contain a number of forward-looking statements. Words such as expects, goals, plans, believes, continues, may, will, and variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in the Business Outlook section and in Risk Factors in Part II, Item 1A of this Form 10-Q. Our actual results may differ materially, and these forward-looking statements do not reflect the potential impact of any divestitures, mergers, acquisitions, or other business combinations that had not been completed as of November 4, 2011.

**Overview**

Our results of operations were as follows:

(Dollars in Millions)	Q3 2011	Q2 2011	Q3 2010
Net revenue	\$ 14,233	\$ 13,032	\$ 11,102
Gross margin	\$ 9,018	\$ 7,902	\$ 7,321
Gross margin percentage	63.4%	60.6%	65.9%
Operating income	\$ 4,785	\$ 3,935	\$ 4,136
Net income	\$ 3,468	\$ 2,954	\$ 2,955

The third quarter of 2011 was a record quarter for revenue, gross margin dollars, operating income, net income, and earnings per share, as increased demand from emerging markets and the enterprise market segment, partially offset by slower growth in the mature market consumer segment were similar to the trends exhibited in the first half of 2011. Our third quarter revenue of \$14.2 billion increased 9% from the second quarter and 28% from the third quarter of 2010. Increased demand for our 2nd generation Intel® Core™ processor products drove a significant increase in notebook microprocessor unit sales from the second quarter which contributed to record microprocessor unit sales in the third quarter. Platform (microprocessor and chipset) average selling prices were flat from the second quarter. We expect our revenue in the fourth quarter to be below seasonal trends based on macroeconomic concerns about mature market consumer growth, particularly in Europe, which historically has been strong during the fourth quarter. In addition, during the fourth quarter, we expect our customers to tightly manage the supply chain and we expect a reduction in Intel Mobile Communications revenue on customer transitions.

Our gross margin percentage for the third quarter of 2011 was up 2.8 percentage points from the second quarter on seasonally higher platform volume, lower platform unit costs as we continue to ramp our 32nm factories, lower start-up costs as we started volume production using our 22nm process technology, and lower charges related to the chipset design issue (see Note 20: Chipset Design Issue in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q). We expect our gross margin percentage to increase in the fourth quarter on higher platform volume, lower platform unit costs, and lower start-up costs. This fourth quarter gross margin percentage expectation assumes a late quarter qualification for sale of our 22nm process technology microprocessors (code-named Ivy Bridge).



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Our strong financial performance during the first nine months of 2011 has allowed us to make significant investments in our business as well as increase the return of cash to our stockholders through common stock repurchases and dividends. The cash generation of our business remained strong in the third quarter of 2011 with \$6.3 billion of cash from operations, and we ended the quarter with an investment portfolio of \$15.2 billion, consisting of cash and cash equivalents, short-term investments, and marketable debt instruments included in trading assets. During the third quarter, we issued \$5.0 billion of notes primarily to repurchase shares of our common stock pursuant to our common stock repurchase program; repurchased \$4.0 billion of common stock through our common stock repurchase program; purchased \$2.7 billion in capital assets; and returned \$1.1 billion to stockholders through dividends. In September, the Board of Directors declared a dividend of \$0.21 per common share for the fourth quarter of 2011 and increased the repurchase authorization limit of our common stock repurchase program by \$10 billion.

We continue to deliver improvements in our product offerings through our tick-tock technology development cadence as we began volume production of Ivy Bridge during the third quarter of 2011 in advance of our anticipated launch in early 2012. Ivy Bridge introduces the first three-dimensional transistor design called Tri-Gate, which is expected to improve performance and energy efficiency, as well as increase transistor density, compared to the existing two-dimensional transistor structure.

We believe that we are beginning to realize returns on the investments we have made to expand our capabilities and create long-term opportunities across the computing continuum. We have shipped certain versions of our 2nd generation Intel® Core™ server processor-based platform (code-named Romley) and expect significant demand upon our launch of all versions of the platform in the spring of 2012 as customers look for cost savings and energy-efficient performance in the Internet data center and cloud computing environments. We announced our collaboration with Google Inc. to enable and optimize future releases of the Android platform for Intel® Atom™ processors which we expect to accelerate the time-to-market of Intel Architecture-based mobile devices using the Android platform. In addition, as we begin to see the first generation of PCs using Ultrabook™ system designs in the marketplace, we believe there is high industry and consumer interest in these thin and light form factors with instant-on capability, enhanced security, and excellent battery life.

**Strategy**

Our goal is to be the preeminent computing solutions company that powers the worldwide digital economy. We believe that the proliferation of the Internet and cloud computing has driven fundamental changes in the computing industry. We are transforming from a company with a primary focus on the design and manufacture of semiconductor chips for PCs and servers to a computing company that delivers complete solutions in the form of hardware and software platforms and supporting services. The number and variety of devices connected to the Internet is growing, and computing is becoming an increasingly engaging and personal experience. End users value consistency across devices that connect seamlessly and effortlessly to the Internet and to each other. We will help to enable this experience by innovating around three pillars of computing: energy-efficient performance, connectivity, and security.

*Energy-Efficient Performance.* We are focusing on improved energy-efficient performance for computing and communications systems and devices. Improved energy-efficient performance involves balancing higher performance with lower power consumption.

*Connectivity.* We are positioning our business to take advantage of the growth in devices that compute and connect to the Internet. In the first quarter of 2011, we acquired the Wireless Solutions (WLS) business of Infineon Technologies AG. This acquisition enables us to offer a portfolio of products that covers a broad range of wireless connectivity options by combining the Intel® WiFi technology with WLS 2G and 3G technologies, and creates a combined path to accelerate industry adoption of 4G LTE.

*Security.* Our goal is to enhance security features through a combination of hardware and software solutions. This may include identity protection and fraud deterrence; detection and prevention of malware; securing data and assets; as well as system recovery and enhanced security patching. In the first quarter of 2011, we acquired McAfee, Inc. We believe this acquisition accelerates and enhances our hardware and software security solutions, improving the overall security of our platforms.

To succeed in the changing computing environment, we have the following key objectives:

Strive to ensure that Intel technology remains the best choice for the PC as well as cloud computing and the data center. Our Ultrabook™ system designs will enable a new user experience by accelerating a new class of mobile computers that use low power processors. These computers will combine the performance and capabilities of today's laptops and tablets in a thin and light form factor that is highly responsive, secure, and seamlessly connects to the Internet and other enabled devices.

Expand platforms into adjacent market segments to bring compelling new solutions to the smartphone, the tablet, the car, and the embedded world.

Enable devices that connect to the Internet and to each other to create a continuum of personal computing. This continuum would give consumers a set of secure, consistent, engaging and personalized computing experiences.

Positively impact the world through our actions and the application of our energy-efficient technology.



---

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

We will use our core assets to meet these objectives. Our core assets include our silicon and process technology, our architecture and platforms, our global presence, our strong relationships across the industry, and our brand recognition. We believe that applying these core assets to our key focus areas provides us with the scale, capacity, and global reach to establish new technologies and respond to customers' needs quickly. Some of our core assets and key focus areas are:

*Silicon and Manufacturing Technology Leadership.* We have long been a leader in silicon process technology and manufacturing, and we aim to continue our lead through investment and innovation in this critical area. We drive a regular two-year upgrade cycle introducing a new microarchitecture approximately every two years and ramping the next generation of silicon process technology in the intervening years. We refer to this as our "tick-tock" technology development cadence. As we continue to drive Moore's Law over the next several years, we believe that the value of this leadership will increase. We have accelerated the Intel® Atom™ processor-based system-on-chip roadmap for netbooks, smartphones, tablets, and other devices, from 32nm through 22nm to 14nm within three successive years. We expect that this acceleration will result in a significant reduction in transistor leakage, lower active power, and an increase of transistor density to enable more powerful smartphones, tablets, and netbooks with more features and longer battery life. Additionally, we aim to have the best process technology, and unlike most semiconductor companies, we primarily manufacture our products in our own facilities. This allows us to optimize performance, reduce our time to market, and scale new products more rapidly.

*Architecture and Platforms.* We are now developing a wide range of solutions for devices that span the computing continuum, from PCs, Ultrabook systems, tablets, and smartphones to in-vehicle infotainment systems and beyond. Users want computing experiences that are consistent and devices that are interoperable. Users and developers value consistency of architecture, which provides a common framework that allows for reduced time to market, with the ability to leverage technologies across multiple form factors. We believe that we can meet the needs of both users and developers by offering Intel® architecture-based computing solutions across the computing continuum. We continue to invest in improving Intel architecture so that we can deliver increased value to our customers in existing market segments and also expand the capabilities of the architecture to meet end-user and customer needs in adjacent market segments. Increasingly, we are delivering our architecture in the form of platforms. Platforms include not only the microprocessor, but other critical hardware and software ingredients that are necessary to create computing solutions. We are expanding our platform capabilities with connectivity solutions, new types of user interfaces, new features and capabilities, and complementary software.

*Software.* We enable and advance the computing ecosystem by providing development tools and support to help software developers create software applications and operating systems that take advantage of our platforms. We seek to expedite growth in various market segments, such as the embedded market segment, through our software offerings. Additionally, we have collaborated with other companies to develop software platforms optimized for our Intel® Atom™ processors and that support multiple hardware architectures as well as multiple operating systems. We also deliver proactive and proven solutions and services that help secure systems and networks around the world.

*Customer Orientation.* Our strategy focuses on developing our next generation of products based on the needs and expectations of our customers. In turn, our products help enable the design and development of new form factors and usage models for businesses and consumers. We offer platforms that incorporate various components designed and configured to work together to provide an optimized solution compared to components that are used separately. Additionally, we promote industry standards that we believe will yield innovation and improved technologies for users.

*Strategic Investments.* We make investments in companies around the world that we believe will generate financial returns, further our strategic objectives, and support our key business initiatives. Our investments, including those made through our Intel Capital program, generally focus on investing in companies and initiatives to stimulate growth in the digital economy, create new business opportunities for Intel, and expand global markets for our products.

*Stewardship.* We are committed to developing energy-efficient technology solutions that can be used to address major global problems while reducing our environmental impact. We are also committed to helping transform education globally through our technology, program, and policy leadership, as well as funding through the Intel Foundation. In addition, we strive to cultivate a work environment where engaged, energized employees can thrive in their jobs and in their communities.

Our continued investment in developing our assets and execution on key focus areas will strengthen our competitive position as we enter and expand into new market segments. We believe that these new market segments will result in demand that is incremental to that of microprocessors designed for notebook and desktop computers. We also believe that increased Internet traffic and use of cloud computing create a need for greater server infrastructure, including server products optimized for energy-efficient performance and virtualization.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)****Critical Accounting Estimates**

The methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on the results that we report in our consolidated condensed financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Our most critical accounting estimates include:

- the valuation of non-marketable equity investments and the determination of other-than-temporary impairments, which impact gains (losses) on equity method investments, net, or gains (losses) on other equity investments, net when we record impairments;
- the assessment of recoverability of long-lived assets (property, plant and equipment; goodwill; and identified intangibles), which impacts gross margin or operating expenses when we record asset impairments or accelerate their depreciation or amortization;
- the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions), which impact our provision for taxes;
- the valuation of inventory, which impacts gross margin; and
- the recognition and measurement of loss contingencies, which impact gross margin or operating expenses when we recognize a loss contingency, revise the estimate for a loss contingency, or record an asset impairment.

Below, we discuss these policies further, as well as the estimates and judgments involved.

***Non-Marketable Equity Investments***

We regularly invest in non-marketable equity instruments of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies with established revenue streams and business models. The carrying value of our non-marketable equity investment portfolio, excluding equity derivatives, totaled \$2.8 billion as of October 1, 2011 (\$2.6 billion as of December 25, 2010). Approximately half of this balance as of October 1, 2011 was concentrated in companies in the flash memory market segment. Our flash memory market segment investments include our investment in IM Flash Technologies, LLC (IMFT) and IM Flash Singapore, LLP (IMFS) of \$1.4 billion (\$1.5 billion as of December 25, 2010). For further information, see Note 11: Equity Method Investments in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

Our non-marketable equity investments are recorded using the cost method or the equity method of accounting, depending on the facts and circumstances of each investment. Our non-marketable equity investments are classified within other long-term assets on the consolidated condensed balance sheets.

Non-marketable equity investments are inherently risky, and their success is dependent on product development, market acceptance, operational efficiency, the ability of the investee companies to raise additional funds in financial markets that can be volatile, and other key business factors. The companies could fail or not be able to raise additional funds when needed, or they may receive lower valuations with less favorable investment terms than previous financings. These events could cause our investments to become impaired. In addition, financial market volatility could negatively affect our ability to realize value in our investments through liquidity events such as initial public offerings, mergers, and private sales. For further information about our investment portfolio risks, see Risk Factors in Part II, Item 1A of this Form 10-Q.

We determine the fair value of our non-marketable equity investments quarterly for disclosure purposes; however, the investments are recorded at fair value only if an impairment charge is recognized. We determine the fair value of our non-marketable equity investments using the market and income approaches. The market approach includes the use of financial metrics and ratios of comparable public companies, such as projected revenues, earnings, and comparable performance multiples. The selection of comparable companies requires management judgment and is based on a number of factors, including comparable companies' sizes, growth rates, industries, development stages, and other relevant factors. The income approach includes the use of a discounted cash flow model, which may include one or multiple discounted cash flow scenarios and requires the following significant estimates for the investee: revenue; expenses, capital spending, and other costs; and discount rates based on the risk profile of comparable companies. Estimates of revenue, expenses, capital spending, and other costs are developed using historical data and available market data. The valuation of our non-marketable equity investments also takes into account variables such as conditions reflected in the capital markets, recent financing activities by the investees, the investees' capital structures, the terms of the investees' issued interests, and the lack of marketability of the investments.





---

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

For non-marketable equity investments, the measurement of fair value requires significant judgment and includes quantitative and qualitative analysis of identified events or circumstances that impact the fair value of the investment, such as:

- the investee's revenue and earnings trends relative to pre-defined milestones and overall business prospects;
- the technological feasibility of the investee's products and technologies;
- the general market conditions in the investee's industry or geographic area, including adverse regulatory or economic changes;
- factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, and the rate at which the investee is using its cash; and
- the investee's receipt of additional funding at a lower valuation.

If the fair value of an investment is below our carrying value, we determine if the investment is other than temporarily impaired based on our quantitative and qualitative analysis, which includes assessing the severity and duration of the impairment and the likelihood of recovery before disposal. If the investment is considered to be other than temporarily impaired, we write down the investment to its fair value. Impairments of non-marketable equity investments were \$12 million in the third quarter of 2011 (\$34 million in the first nine months of 2011). Over the past 12 quarters, including the third quarter of 2011, impairments of non-marketable equity investments ranged from \$8 million to \$896 million per quarter. This range included impairments of \$896 million during the fourth quarter of 2008, primarily related to a \$762 million impairment charge on our investment in Clearwire Communications, LLC.

*IMFT/IMFS*

IMFT and IMFS are variable interest entities that are designed to manufacture and sell NAND products to Intel and Micron Technology, Inc. at manufacturing cost. We determine the fair value of our investment in IMFT/IMFS using the income approach based on a weighted average of multiple discounted cash flow scenarios of our NAND Solutions Group business, which requires the use of unobservable inputs. Unobservable inputs that require us to make our most difficult and subjective judgments are the estimates for projected revenue and discount rate. Changes in management estimates for these unobservable inputs have the most significant effect on the fair value determination. We have not had an other-than-temporary impairment of our investment in IMFT/IMFS.

*Long-Lived Assets*

*Property, Plant and Equipment*

We assess property, plant and equipment for impairment when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. We measure the recoverability of assets that will continue to be used in our operations by comparing the carrying value of the asset grouping to our estimate of the related total future undiscounted net cash flows. If an asset grouping's carrying value is not recoverable through the related undiscounted cash flows, the asset grouping is considered to be impaired. The impairment is measured by comparing the difference between the asset grouping's carrying value and its fair value. Property, plant and equipment is considered a non-financial asset and is recorded at fair value only if an impairment charge is recognized.

Impairments are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific semiconductor manufacturing tools and building improvements. When we determine that the useful lives of assets are shorter than we had originally estimated, we accelerate the rate of depreciation over the assets' new, shorter useful lives. Over the past 12 quarters, including the third quarter of 2011, impairments and accelerated depreciation of long-lived assets ranged from \$10 million to \$75 million per quarter.

*Goodwill*

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is allocated to our reporting units based on relative fair value of the future benefit of the purchased operations to our existing business units as well as the acquired business unit.



---

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

We perform an annual review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the carrying value of the recorded goodwill is impaired. Our impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. Our reporting units are consistent with the operating segments identified in Note 27: Operating Segment Information in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, we would record an impairment loss equal to the difference.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. Our impairment review process uses the income method to estimate the reporting unit's fair value and is based on a discounted future cash flow approach that uses the following reporting unit estimates: revenue, based on assumed market segment growth rates and Intel's assumed market segment share; estimated costs; and appropriate discount rates based on the reporting unit's weighted average cost of capital as determined by considering the observable weighted average cost of capital of comparable companies. Our estimates of market segment growth, our market segment share and costs are based on historical data, various internal estimates and a variety of external sources, and are developed as part of our routine long-range planning process. The same estimates are also used in planning for our long-term manufacturing and assembly and test capacity needs as part of our capital budgeting process and for both long-term and short-term business planning and forecasting. We test the reasonableness of the inputs and outcomes of our discounted cash flow analysis against available comparable market data. In determining the carrying value of the reporting unit, we must include an allocation of our manufacturing and assembly and test assets because of the interchangeable nature of our manufacturing and assembly and test capacity. This allocation is based on each reporting unit's relative percentage utilization of our manufacturing and assembly and test assets.

During the fourth quarter of each of the prior two fiscal years, we completed our annual impairment reviews and concluded that goodwill was not impaired in either of these years.

#### *Identified Intangibles*

We make judgments about the recoverability of purchased finite lived intangible assets whenever events or changes in circumstances indicate that an impairment may exist. Recoverability of finite lived intangible assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. We review indefinite lived intangible assets for impairment quarterly and whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of indefinite lived intangible assets is measured by comparison of the carrying amount of the asset to the future discounted cash flows the asset is expected to generate. If it is determined that an individual asset is impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

The assumptions and estimates used to determine future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by various factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our forecasts for specific product lines. Based on our impairment reviews of our intangible assets, we have not recognized any impairment charges in 2011 or 2010.

#### *Income Taxes*

We must make estimates and judgments in determining the provision for taxes for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities that arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties related to uncertain tax positions. Significant changes in these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover the deferred tax assets recorded on our consolidated condensed balance sheets. However, should there be a change in our

## Edgar Filing: INTEL CORP - Form 10-Q

ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely. Recovery of a portion of our deferred tax assets is impacted by management's plans with respect to holding or disposing of certain investments; therefore, changes in management's plans with respect to holding or disposing of investments could affect our future provision for taxes.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If we determine that a tax position will more likely than not be sustained on audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

***Inventory***

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The estimate of future demand is compared to work-in-process and finished goods inventory levels to determine the amount, if any, of obsolete or excess inventory. As of October 1, 2011, we had total work-in-process inventory of \$1.5 billion and total finished goods inventory of \$1.9 billion. The demand forecast is included in the development of our short-term manufacturing plans to enable consistency between inventory valuation and build decisions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of the customer base, the stage of the product life cycle of our products, consumer confidence, and customer acceptance of our products, as well as an assessment of the selling price in relation to the product cost. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to write off inventory, which would negatively impact our gross margin.

In order to determine what costs can be included in the valuation of inventory, we must determine normal capacity at our manufacturing and assembly and test facilities, based on historical loadings compared to total available capacity. If the factory loadings are below the established normal capacity level, a portion of our manufacturing overhead costs would not be included in the cost of inventory, and therefore would be recognized as cost of sales in that period, which would negatively impact our gross margin. We refer to these costs as excess capacity charges. Over the past 12 quarters, excess capacity charges ranged from zero to \$680 million per quarter.

***Loss Contingencies***

We are subject to various legal and administrative proceedings and asserted and potential claims, accruals related to repair or replacement of parts in connection with product errata, as well as product warranties and potential asset impairments (loss contingencies) that arise in the ordinary course of business. An estimated loss from such contingencies is recognized as a charge to income if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated based on the best information available at that time. A loss contingency is disclosed when there is at least a reasonable possibility that a loss has been incurred. The outcomes of legal and administrative proceedings and claims, and the estimation of product warranties and asset impairments, are subject to significant uncertainty. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. With respect to estimating the losses associated with repairing and replacing parts in connection with product errata, we make judgments with respect to customer return rates, costs to repair or replace parts, and where the product is in our customer's manufacturing process. At least quarterly, we review the status of each significant matter, and we may revise our estimates as additional information becomes available. These revisions could have a material impact on our results of operations and financial position.

**Accounting Changes and Recent Accounting Standards**

For a description of accounting changes see Note 3: Accounting Changes and Note 4: Recent Accounting Standards in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

## Results of Operations Third Quarter of 2011 Compared to Third Quarter of 2010

The following table sets forth certain consolidated condensed statements of operations data as a percentage of net revenue for the periods indicated:

(Dollars in Millions, Except Per Share Amounts)	Q3 2011		Q3 2010	
	Dollars	% of Net Revenue	Dollars	% of Net Revenue
<b>Net revenue</b>	<b>\$ 14,233</b>	<b>100.0%</b>	<b>\$ 11,102</b>	<b>100.0%</b>
Cost of sales	5,215	36.6%	3,781	34.1%
<b>Gross margin</b>	<b>9,018</b>	<b>63.4%</b>	<b>7,321</b>	<b>65.9%</b>
Research and development	2,140	15.0%	1,675	15.1%
Marketing, general and administrative	2,017	14.3%	1,506	13.5%
Amortization of acquisition-related intangibles	76	0.5%	4	%
<b>Operating income</b>	<b>4,785</b>	<b>33.6%</b>	<b>4,136</b>	<b>37.3%</b>
Gains (losses) on equity method investments, net	(40)	(0.3)%	126	1.1%
Gains (losses) on other equity investments, net	132	1.0%	(49)	(0.4)%
Interest and other, net	15	0.1%	38	0.3%
<b>Income before taxes</b>	<b>4,892</b>	<b>34.4%</b>	<b>4,251</b>	<b>38.3%</b>
Provision for taxes	1,424	10.0%	1,296	11.7%
<b>Net income</b>	<b>\$ 3,468</b>	<b>24.4%</b>	<b>\$ 2,955</b>	<b>26.6%</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.65</b>		<b>\$ 0.52</b>	

The following table sets forth information of geographic regions for the periods indicated:

(Dollars in Millions)	Q3 2011		Q3 2010	
	Revenue	% of Total	Revenue	% of Total
Asia-Pacific	\$ 8,050	57%	\$ 6,404	58%
Americas	3,017	21%	2,240	20%
Europe	1,814	13%	1,326	12%
Japan	1,352	9%	1,132	10%
<b>Total</b>	<b>\$ 14,233</b>	<b>100%</b>	<b>\$ 11,102</b>	<b>100%</b>

Our net revenue for Q3 2011 increased \$3.1 billion, or 28%, compared to Q3 2010. The increase was due to higher platform (microprocessor and chipset) average selling prices and \$1.1 billion in revenue from Intel Mobile Communications (formerly the WLS business of Infineon) and McAfee. We acquired the WLS business of Infineon and McAfee in Q1 2011. Additionally, slightly higher microprocessor unit sales and significantly higher chipset unit sales also contributed to the increase. Revenue in the Europe, Americas, Asia-Pacific, and Japan regions increased by 37%, 35%, 26%, and 19%, respectively, compared to Q3 2010.

Our overall gross margin dollars for Q3 2011 increased \$1.7 billion, or 23%, compared to Q3 2010. The increase was primarily due to significantly higher revenue, partially offset by approximately \$320 million of higher start-up costs and higher platform unit costs compared to Q3 2010. The amortization of acquisition-related intangibles resulted in a \$135 million reduction to our overall gross margin dollars in Q3 2011, compared to \$16 million in Q3 2010, primarily due to the acquisitions of McAfee and the WLS business of Infineon.

## Edgar Filing: INTEL CORP - Form 10-Q

Our overall gross margin percentage decreased to 63.4% in Q3 2011 from 65.9% in Q3 2010. The decrease in gross margin percentage was primarily attributable to the gross margin percentage decrease in the other Intel architecture operating segments and the PC Client Group operating segment. We derived a majority of our overall gross margin dollars in Q3 2011 and a substantial majority of our overall gross margin dollars in Q3 2010 from the sale of microprocessors in the PC Client Group and Data Center Group operating segments. See Business Outlook for a discussion of gross margin expectations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)*****PC Client Group***

The revenue and operating income for the PC Client Group (PCCG) operating segment for Q3 2011 and Q3 2010 were as follows:

(In Millions)	Q3 2011	Q3 2010
Microprocessor revenue	\$ 7,521	\$ 6,072
Chipset, motherboard, and other revenue	1,896	1,666
<b>Net revenue</b>	<b>\$ 9,417</b>	<b>\$ 7,738</b>
<b>Operating income</b>	<b>\$ 4,014</b>	<b>\$ 3,345</b>

Net revenue for the PCCG operating segment increased by \$1.7 billion, or 22%, in Q3 2011 compared to Q3 2010. Microprocessors and chipsets within PCCG include those designed for the notebook and desktop computing market segments. The increase in microprocessor revenue was due to significantly higher notebook average selling prices and notebook unit sales. To a lesser extent, higher desktop average selling prices and desktop unit sales also contributed to the increase. The increase in chipset, motherboard, and other revenue was due to significantly higher chipset unit sales.

Operating income increased by \$669 million in Q3 2011 compared to Q3 2010. The increase in operating income was due to higher revenue. The increase was partially offset by approximately \$300 million of higher start-up costs. Additionally, operating expenses and platform unit costs were higher in Q3 2011 compared to Q3 2010.

***Data Center Group***

The revenue and operating income for the Data Center Group (DCG) operating segment for Q3 2011 and Q3 2010 were as follows:

(In Millions)	Q3 2011	Q3 2010
Microprocessor revenue	\$ 2,118	\$ 1,847
Chipset, motherboard, and other revenue	394	339
<b>Net revenue</b>	<b>\$ 2,512</b>	<b>\$ 2,186</b>
<b>Operating income</b>	<b>\$ 1,221</b>	<b>\$ 1,068</b>

Net revenue for the DCG operating segment increased by \$326 million, or 15%, in Q3 2011 compared to Q3 2010. The increase in microprocessor revenue was due to significantly higher microprocessor unit sales and, to a lesser extent, slightly higher microprocessor average selling prices. The increase in chipset, motherboard, and other revenue was due to significantly higher revenue from the sale of wired connectivity products.

Operating income increased by \$153 million in Q3 2011 compared to Q3 2010. The increase in operating income was primarily due to higher revenue, partially offset by higher operating expenses compared to Q3 2010.

***Other Intel Architecture Operating Segments***

The revenue and operating income for the other Intel architecture (Other IA) operating segments, including Intel Mobile Communications (IMC), the Intelligent Systems Group (ISG), the Netbook and Tablet Group (NTG), the Digital Home Group (DHG), and the Ultra-Mobility Group (UMG), for Q3 2011 and Q3 2010 were as follows:

(In Millions)	Q3 2011	Q3 2010
Net revenue	\$ 1,368	\$ 812



## Edgar Filing: INTEL CORP - Form 10-Q

Operating income (loss) \$ (140) \$ 92

Net revenue for the Other IA operating segments increased by \$556 million, or 68%, in Q3 2011 compared to Q3 2010. The increase was primarily due to IMC revenue, an operating segment formed from the acquisition of the WLS business of Infineon. The increase was partially offset by significantly lower NTG microprocessor and chipset unit sales and significantly lower ISG microprocessor average selling prices.

Operating results for the Other IA operating segments decreased by \$232 million, from an operating income of \$92 million in Q3 2010 to an operating loss of \$140 million in Q3 2011. The decline in operating results was primarily due to higher operating expenses within each of the Other IA operating segments, partially offset by higher revenue.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)*****Software and Services Operating Segments***

The revenue and operating income for the Software and Services operating segments, including McAfee, Wind River Software Group, and Software and Services Group, for Q3 2011 and Q3 2010 were as follows:

(In Millions)	Q3 2011	Q3 2010
Net revenue	\$ 541	\$ 66
Operating income/(loss)	\$ 18	\$ (36)

Net revenue for the Software and Services operating segments increased by \$475 million in Q3 2011 compared to Q3 2010. The increase was primarily due to revenue from the acquisition of McAfee. Due to the revaluation of McAfee's historic deferred revenue to fair value, we excluded \$59 million of revenue that would have been reported in Q3 2011 if McAfee's deferred revenue had not been written down due to the acquisition.

Operating results for the Software and Services operating segments increased by \$54 million, from an operating loss of \$36 million in Q3 2010 to an operating income of \$18 million in Q3 2011. The increase in operating results was primarily due to higher revenue, partially offset by higher operating expenses from the acquisition of McAfee. Due to the revaluation of McAfee's historic deferred revenue to fair value, we excluded revenue and associated costs that would have created \$55 million of operating income in Q3 2011.

***Operating Expenses***

Operating expenses for Q3 2011 and Q3 2010 were as follows:

(In Millions)	Q3 2011	Q3 2010
Research and development	\$ 2,140	\$ 1,675
Marketing, general and administrative	\$ 2,017	\$ 1,506
Amortization of acquisition-related intangibles	\$ 76	\$ 4

*Research and Development.* R&D spending increased by \$465 million, or 28%, in Q3 2011 compared to Q3 2010. This increase was primarily due to the expenses of McAfee and Intel Mobile Communications, and higher compensation expenses based on an increase in employees.

*Marketing, General and Administrative.* Marketing, general and administrative expenses increased by \$511 million, or 34%, in Q3 2011 compared to Q3 2010. This increase was primarily due to the expenses of McAfee and Intel Mobile Communications, higher advertising expenses (including cooperative advertising expenses), and, to a lesser extent, higher compensation expenses based on an increase in employees.

R&D, combined with marketing, general and administrative expenses, were 29% of net revenue in Q3 2011 and Q3 2010.

*Amortization of acquisition-related intangibles.* The increase of \$72 million was primarily due to the amortization of intangibles related to the acquisitions of McAfee and the WLS business of Infineon, both completed in the first quarter of 2011. For further information, see Note 15: Acquisitions and Note 18: Identified Intangible Assets in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

***Gains (Losses) on Equity Method Investments, Net***

Gains (losses) on equity method investments, net were as follows:

(In Millions)	Q3 2011	Q3 2010
Equity method losses, net	\$ (63)	\$ (28)
Other, net	23	154

<b>Total gains (losses) on equity method investments, net</b>	<b>\$ (40)</b>	<b>\$ 126</b>
---	----------------	---------------

We recognized lower gains on sales and higher equity method losses in Q3 2011 compared to Q3 2010. During Q3 2010, we recognized a gain of \$33 million on the initial public offering of SMART Technologies, Inc., included within Equity method losses, net, and a gain of \$148 million on the subsequent sale of our shares in the secondary offering, included in Other, net, resulting in a total gain of \$181 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Equity method losses, net also included losses from Clearwire LLC (\$50 million loss in Q3 2011 and \$34 million loss in Q3 2010). The equity method losses recognized in the third quarter of 2011 reduced our carrying value in Clearwire LLC to zero. We do not expect to recognize additional equity method losses for Clearwire LLC in the future.

***Gains (Losses) on Other Equity Investments, Net***

Gains (losses) on other equity investments, net were as follows:

(In Millions)	Q3 2011	Q3 2010
Impairment charges	\$ (79)	\$ (32)
Gains on sales, net	189	22
Other, net	22	(39)
<b>Total gains (losses) on other equity investments, net</b>	<b>\$ 132</b>	<b>\$ (49)</b>

We recognized higher gains on sales and gains on other equity transactions, partially offset by higher impairment charges in Q3 2011 compared to Q3 2010. Gains on sales of equity investments in Q3 2011 included a gain of \$150 million on the sale of shares in VMware Inc.

The loss in Other, net for Q3 2010 was primarily related to fair value losses on the equity interest in Micron we received from the sale of our ownership interest in Numonyx B.V., partially offset by equity options established prior to the Numonyx sale that economically hedged a portion of our Micron equity interest. During Q2 2011, we sold our remaining ownership interest in Micron and the related equity options matured.

***Interest and Other, Net***

The components of interest and other, net were as follows:

(In Millions)	Q3 2011	Q3 2010
Interest income	\$ 22	\$ 35
Other, net	(7)	3
<b>Total interest and other, net</b>	<b>\$ 15</b>	<b>\$ 38</b>

We recognized lower interest income in Q3 2011 compared to Q3 2010 as a result of lower average investment balances.

***Provision for Taxes***

Our provision for taxes and effective tax rate were as follows:

(Dollars in Millions)	Q3 2011	Q3 2010
Income before taxes	\$ 4,892	\$ 4,251
Provision for taxes	\$ 1,424	\$ 1,296
Effective tax rate	29.1%	30.5%

The effective tax rate for Q3 2011 was positively impacted by the U.S. research and development tax credit that was reinstated in December 2010.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

## Results of Operations First Nine Months of 2011 Compared to First Nine Months of 2010

The following table sets forth certain consolidated condensed statements of operations data as a percentage of net revenue for the periods indicated:

(Dollars in Millions, Except Per Share Amounts)	YTD 2011		YTD 2010	
	Dollars	% of Net Revenue	Dollars	% of Net Revenue
<b>Net revenue</b>	<b>\$ 40,112</b>	<b>100.0%</b>	<b>\$ 32,166</b>	<b>100.0%</b>
Cost of sales	15,307	38.2%	11,081	34.4%
<b>Gross margin</b>	<b>24,805</b>	<b>61.8%</b>	<b>21,085</b>	<b>65.6%</b>
Research and development	6,042	15.1%	4,905	15.3%
Marketing, general and administrative	5,697	14.1%	4,604	14.3%
Amortization of acquisition-related intangibles	188	0.5%	11	%
<b>Operating income</b>	<b>12,878</b>	<b>32.1%</b>	<b>11,565</b>	<b>36.0%</b>
Gains (losses) on equity method investments, net	(148)	(0.4)%	163	0.5%
Gains (losses) on other equity investments, net	243	0.6%	76	0.2%
Interest and other, net	221	0.6%	78	0.2%
<b>Income before taxes</b>	<b>13,194</b>	<b>32.9%</b>	<b>11,882</b>	<b>36.9%</b>
Provision for taxes	3,612	9.0%	3,598	11.1%
<b>Net income</b>	<b>\$ 9,582</b>	<b>23.9%</b>	<b>\$ 8,284</b>	<b>25.8%</b>
<b>Diluted earnings per common share</b>	<b>\$ 1.75</b>		<b>\$ 1.45</b>	

The following table sets forth information of geographic regions for the periods indicated:

(Dollars in Millions)	\$22,7030		\$22,7030	
	Revenue	% of Total	Revenue	% of Total
Asia-Pacific	\$ 22,703	57%	\$ 18,458	57%
Americas	8,641	22%	6,319	20%
Europe	5,023	12%	4,024	13%
Japan	3,745	9%	3,365	10%
<b>Total</b>	<b>\$ 40,112</b>	<b>100%</b>	<b>\$ 32,166</b>	<b>100%</b>

Our net revenue for the first nine months of 2011, which included 40 weeks, increased \$7.9 billion, or 25%, compared to the first nine months of 2010, which included 39 weeks. The increase was primarily due to higher platform (microprocessor and chipset) average selling prices. To a lesser extent, slightly higher microprocessor unit sales and higher chipset unit sales also contributed to the increase. Revenue from Intel Mobile Communications (formerly the WLS business of Infineon) and McAfee contributed \$2.7 billion to the first nine months of 2011 revenue. Revenue in the Americas, Europe, Asia-Pacific, and Japan regions increased by 37%, 25%, 23%, and 11%, respectively, compared to the first nine months of 2010.

## Edgar Filing: INTEL CORP - Form 10-Q

Our overall gross margin dollars increased by \$3.7 billion, or 18%, compared to the first nine months of 2010. The increase was primarily due to significantly higher revenue. The increase was partially offset by approximately \$900 million of higher start-up costs compared to the first nine months of 2010. In addition, a charge of \$422 million recorded in the first half of 2011 to repair and replace materials and systems impacted by a design issue related to our Intel® 6 Series Express Chipset family, also offset the increase to our overall gross margin dollars. For further information, see Note 20: Chipset Design Issue in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q. To a lesser extent, platform unit costs were higher compared to the first nine months of 2010. The amortization of acquisition-related intangibles resulted in a \$345 million reduction to our overall gross margin dollars in the first nine months of 2011, compared to \$48 million in the first nine months of 2010, primarily due to the acquisitions of McAfee and the WLS business of Infineon.

Our overall gross margin percentage decreased to 61.8% in the first nine months of 2011 from 65.6% in the first nine months of 2010. The decrease in gross margin percentage was primarily attributable to the gross margin percentage decrease in the PC Client Group operating segment and, to a lesser extent, the gross margin percentage decrease in the other Intel architecture operating segments. We derived a majority of our overall gross margin dollars in the first nine months of 2011 and a substantial majority of our overall gross margin dollars in the first nine months of 2010 from the sale of microprocessors in the PC Client Group and Data Center Group operating segments. See Business Outlook for a discussion of gross margin expectations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)*****PC Client Group***

The revenue and operating income for the PC Client Group (PCCG) operating segment for the first nine months of 2011 and the first nine months of 2010 were as follows:

(In Millions)	YTD 2011	YTD 2010
Microprocessor revenue	\$ 20,877	\$ 17,666
Chipset, motherboard, and other revenue	5,482	4,948
<b>Net revenue</b>	<b>\$ 26,359</b>	<b>\$ 22,614</b>
<b>Operating income</b>	<b>\$ 10,841</b>	<b>\$ 9,765</b>

Net revenue for the PCCG operating segment increased by \$3.7 billion, or 17%, in the first nine months of 2011 compared to the first nine months of 2010. Microprocessors and chipsets within PCCG include those designed for the notebook and desktop computing market segments. The increase in microprocessor revenue was due to significantly higher notebook average selling prices. To a lesser extent, higher notebook unit sales, higher desktop average selling prices, and slightly higher desktop unit sales also contributed to the increase. The increase in chipset, motherboard, and other revenue was due to significantly higher chipset unit sales.

Operating income increased by \$1.1 billion in the first nine months of 2011 compared to the first nine months of 2010. The increase in operating income was primarily due to significantly higher revenue. The increase was partially offset by approximately \$880 million of higher start-up costs. In addition, a charge of \$422 million recorded in the first half of 2011 to repair and replace materials and systems impacted by a design issue related to our Intel® 6 Series Express Chipset family also contributed to the offset. To a lesser extent, platform unit costs, operating expenses, and inventory write-offs were higher compared to the first nine months of 2010, which also contributed to the offset.

***Data Center Group***

The revenue and operating income for the Data Center Group (DCG) operating segment for the first nine months of 2011 and the first nine months of 2010 were as follows:

(In Millions)	YTD 2011	YTD 2010
Microprocessor revenue	\$ 6,233	\$ 5,196
Chipset, motherboard, and other revenue	1,179	975
<b>Net revenue</b>	<b>\$ 7,412</b>	<b>\$ 6,171</b>
<b>Operating income</b>	<b>\$ 3,647</b>	<b>\$ 2,962</b>

Net revenue for the DCG operating segment increased by \$1.2 billion, or 20%, in the first nine months of 2011 compared to the first nine months of 2010. The increase in microprocessor revenue was due to significantly higher microprocessor unit sales and, to a lesser extent, slightly higher microprocessor average selling prices. The increase in chipset, motherboard, and other revenue was due to significantly higher revenue from the sale of wired connectivity products and slightly higher chipset unit sales.

Operating income increased by \$685 million in the first nine months of 2011 compared to the first nine months of 2010. The increase in operating income was primarily due to significantly higher revenue, partially offset by higher operating expenses compared to the first nine months of 2010.

***Other Intel Architecture Operating Segments***

The revenue and operating income for the other Intel architecture (Other IA) operating segments, including Intel Mobile Communications (IMC), the Intelligent Systems Group (ISG), the Netbook and Tablet Group (NTG), the Digital Home Group (DHG), and the Ultra-Mobility Group (UMG), for the first nine months of 2011 and the first nine months of 2010 were as follows:



Edgar Filing: INTEL CORP - Form 10-Q

(In Millions)	YTD 2011	YTD 2010
Net revenue	\$ 3,906	\$ 2,241
Operating income (loss)	\$ (209)	\$ 194

Net revenue for the Other IA operating segments increased by \$1.7 billion, or 74%, in the first nine months of 2011 compared to the first nine months of 2010. The increase was primarily due to IMC revenue, an operating segment formed from the acquisition of the WLS business of Infineon. To a lesser extent, significantly higher ISG microprocessor and chipset unit sales also contributed to the increase. These increases were partially offset by significantly lower NTG microprocessor and chipset unit sales.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Operating results for the Other IA operating segments decreased by \$403 million from an operating income of \$194 million in the first nine months of 2010 to an operating loss of \$209 million the first nine months of 2011. The decline in operating results was primarily due to higher operating expenses within each of the Other IA operating segments, partially offset by higher revenue.

***Software and Services Operating Segments***

The revenue and operating income for the Software and Services operating segments, including McAfee, Wind River Software Group, and Software and Services Group, for the first nine months of 2011 and the first nine months of 2010 were as follows:

(In Millions)	YTD 2011	YTD 2010
Net revenue	\$ 1,292	\$ 189
Operating loss	\$ (48)	\$ (128)

Net revenue for the Software and Services operating segments increased by \$1.1 billion in the first nine months of 2011 compared to the first nine months of 2010. The increase was due to revenue from the acquisition of McAfee. Due to the revaluation of McAfee's historic deferred revenue to fair value, we excluded \$169 million of revenue that would have been reported in the first nine months of 2011 if McAfee's deferred revenue had not been written down due to the acquisition.

Operating loss for the Software and Services operating segments decreased by \$80 million in the first nine months of 2011 compared to the first nine months of 2010. The operating loss decrease was primarily due to higher revenue, partially offset by higher operating expenses across each of the Software and Services operating segments. Due to the revaluation of McAfee's historic deferred revenue to fair value, we excluded revenue and associated costs that would have created \$158 million of operating income in the first nine months of 2011.

***Operating Expenses***

Operating expenses for the first nine months of 2011 and the first nine months of 2010 were as follows:

(In Millions)	YTD 2011	YTD 2010
Research and development	\$ 6,042	\$ 4,905
Marketing, general and administrative	\$ 5,697	\$ 4,604
Amortization of acquisition-related intangibles	\$ 188	\$ 11

*Research and Development.* R&D spending increased by \$1.1 billion, or 23%, in the first nine months of 2011 compared to the first nine months of 2010. This increase was primarily due to the expenses of McAfee and Intel Mobile Communications, and higher compensation expenses based on an increase in employees. These increases were partially offset by lower overall process development costs as the transition to manufacturing start-up costs related to our 22nm process technology outweighs R&D of our next-generation 14nm process technology.

*Marketing, General and Administrative.* Marketing, general and administrative expenses increased by \$1.1 billion, or 24%, in the first nine months of 2011 compared to the first nine months of 2010. This increase was primarily due to the expenses of McAfee and Intel Mobile Communications, higher compensation expenses based on an increase in employees, and higher advertising expenses (including cooperative advertising expenses).

R&D, combined with marketing, general and administrative expenses, were 29% of net revenue in the first nine months of 2011 (30% of net revenue in the first nine months of 2010).

*Amortization of acquisition-related intangibles.* The increase of \$177 million was primarily due to the amortization of intangibles related to the acquisitions of McAfee and the WLS business of Infineon, both completed in the first quarter of 2011. For further information, see Note 15: Acquisitions and Note 18: Identified Intangible Assets in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)*****Gains (Losses) on Equity Method Investments, Net***

Gains (losses) on equity method investments, net were as follows:

(In Millions)	YTD 2011	YTD 2010
Equity method losses, net	\$ (192)	\$ (72)
Impairment charges		(10)
Other, net	44	245
<b>Total gains (losses) on equity method investments, net</b>	<b>\$ (148)</b>	<b>\$ 163</b>

We recognized lower gains on sales and higher equity method losses in the first nine months of 2011 compared to the first nine months of 2010.

During the first nine months of 2010, we recognized a gain of \$33 million on the initial public offering of SMART, included within Equity method losses, net, and a gain of \$148 million on the subsequent sale of our shares in the secondary offering, included in Other, net, resulting in a total gain of \$181 million. We also recognized a gain of \$91 million on the sale of our ownership interest in Numonyx, included in Other, net.

Equity method losses, net also includes Clearwire LLC (\$145 million loss in the first nine months of 2011 and \$81 million loss in the first nine months of 2010) and Numonyx (\$42 million gain in the first nine months of 2010).

***Gains (Losses) on Other Equity Investments, Net***

Gains (losses) on other equity investments, net were as follows:

(In Millions)	YTD 2011	YTD 2010
Impairment charges	\$ (102)	\$ (85)
Gains on sales, net	276	125
Other, net	69	36
<b>Total gains (losses) on other equity investments, net</b>	<b>\$ 243</b>	<b>\$ 76</b>

We recognized higher gains on sales of other equity investments and higher gains from other equity transactions, partially offset by higher impairment charges in the first nine months of 2011 compared to the first nine months of 2010. Gains on sales of equity investments included a gain of \$150 million on the sale of shares in VMware Inc. in the first nine months of 2011 and a gain of \$67 million on the sale of shares in Micron in the first nine months of 2010.

***Interest and Other, Net***

The components of interest and other, net were as follows:

(In Millions)	YTD 2011	YTD 2010
Interest income	\$ 70	\$ 90
Interest expense	(6)	
Other, net	157	(12)
<b>Total interest and other, net</b>	<b>\$ 221</b>	<b>\$ 78</b>

## Edgar Filing: INTEL CORP - Form 10-Q

Interest and other, net increased in the first nine months of 2011 compared to the first nine months of 2010, primarily due to a \$164 million gain recognized upon formation of the Intel-GE Care Innovations, LLC joint venture during Q1 2011. For further information, see Note 11: Equity Method Investments, in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q. The gain was partially offset by lower interest income in the first nine months of 2011 compared to the first nine months of 2010 as a result of lower average investment balances.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)*****Provision for Taxes***

Our provision for taxes and effective tax rate were as follows:

<b>(Dollars in Millions)</b>	<b>YTD 2011</b>	<b>YTD 2010</b>
Income before taxes	\$ 13,194	\$ 11,882
Provision for taxes	\$ 3,612	\$ 3,598
Effective tax rate	27.4%	30.3%

The effective tax rate for the first nine months of 2011 was positively impacted by a higher percentage of profits being derived from lower tax jurisdictions compared to the first nine months of 2010. The effective tax rate for the first nine months of 2011 also included the U.S. research and development tax credit that was reinstated in December 2010.

**Business Outlook**

Our future results of operations and the topics of other forward-looking statements contained in this Form 10-Q, including this MD&A, involve a number of risks and uncertainties in particular:

- changes in business and economic conditions;
- revenue and pricing;
- gross margin and costs;
- pending legal proceedings;
- our effective tax rate;
- marketing, general and administrative expenses;
- our goals and strategies;
- new product introductions, and product defects and errata;
- plans to cultivate new businesses;
- R&D expenses;
- divestitures, acquisitions, or similar transactions;
- net gains (losses) from equity investments;
- interest and other, net;
- capital spending;
- depreciation; and
- impairment of investments.

In addition to the various important factors discussed above, a number of other important factors could cause actual results to differ materially from our expectations. See the risks described in **Risk Factors** in Part II, Item 1A of this Form 10-Q.

Our expectations for the remainder of 2011 are as follows:

***Q4 2011***

*Revenue.* \$14.7 billion, plus or minus \$500 million.

*Gross margin percentage.* 65% plus or minus a couple percentage points.

*Total spending.* We expect spending on R&D, plus marketing, general and administrative expenses to be approximately \$4.3 billion.

*Depreciation.* Approximately \$1.4 billion.

***Full Year 2011***

## Edgar Filing: INTEL CORP - Form 10-Q

*Capital spending.* \$10.5 billion, plus or minus \$300 million.

2011 will have 53 weeks of business versus the typical 52 weeks.

### **Status of Business Outlook**

We expect that our corporate representatives will, from time to time, meet publicly or privately with investors and others, and may reiterate the forward-looking statements contained in the **Business Outlook** section and elsewhere in this Form 10-Q, including any such statements that are incorporated by reference in this Form 10-Q. At the same time, we will keep this Form 10-Q and our most current business outlook publicly available on our Investor Relations web site at [www.intc.com](http://www.intc.com). The public can continue to rely on the business outlook published on the web site as representing our current expectations on matters covered, unless we publish a notice stating otherwise. The statements in the **Business Outlook** section and other forward-looking statements in this Form 10-Q are subject to revision during the course of the year in our quarterly earnings releases and Securities and Exchange Commission (SEC) filings and at other times.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

The forward-looking statements in the Business Outlook section will be effective through the close of business December 16, 2011 unless earlier updated. From the close of business on December 16, 2011 until our quarterly earnings release is published, presently scheduled for January 19, 2012, we will observe a quiet period. During the quiet period, the Business Outlook section and other forward-looking statements first published in our Form 8-K filed on October 18, 2011, as reiterated or updated as applicable in this Form 10-Q, should be considered historical, speaking as of prior to the quiet period only and not subject to update. During the quiet period, our representatives will not comment on our business outlook or our financial results or expectations. The exact timing and duration of the routine quiet period, and any others that we utilize from time to time, may vary at our discretion.

**Liquidity and Capital Resources**

(Dollars in Millions)	\$21,497 Oct. 1, 2011	\$21,497 Dec. 25, 2010
Cash and cash equivalents, short-term investments, and marketable debt instruments included in trading assets	\$ 15,192	\$ 21,497
Loans receivable and other long-term investments	\$ 1,895	\$ 3,876
Short-term and long-term debt	\$ 7,142	\$ 2,115
Debt as % of stockholders' equity	15.5%	4.3%

In summary, our cash flows were as follows:

(In Millions)	Nine Months Ended	
	Oct. 1, 2011	Sept. 25, 2010
Net cash provided by operating activities	\$ 14,333	\$ 11,142
Net cash used for investing activities	(5,534)	(7,567)
Net cash used for financing activities	(7,250)	(2,045)
Effect of exchange rate fluctuations on cash and cash equivalents	10	
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 1,559</b>	<b>\$ 1,530</b>

**Operating Activities**

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities.

Cash from operations for the first nine months of 2011 was \$14.3 billion, an increase of \$3.2 billion compared to the first nine months of 2010 due to adjustments for non-cash items and higher net income, partially offset by changes in our working capital. The adjustments for non-cash items were higher for the first nine months of 2011 compared to the first nine months of 2010 primarily due to higher depreciation and amortization of intangibles, as well as increases in non-acquisition-related deferred tax liabilities as of October 1, 2011 compared to December 25, 2010. Income taxes paid, net of refunds, in the first nine months of 2011 compared to the first nine months of 2010 were \$723 million lower largely due to the tax benefit of 100% bonus depreciation for assets placed in service in the United States in 2011.

Changes in assets and liabilities as of October 1, 2011 compared to December 25, 2010 included the following:

*Accounts receivable* increased due to higher revenue.

*Accrued compensation and benefits* decreased due to payout of 2010 profit-dependent compensation.

*Accounts Payable* increased due to timing of payments.

For the first nine months of 2011, our two largest customers accounted for 34% of net revenue (37% for the first nine months of 2010) with one of those customers accounting for 19% of our net revenue, and another customer accounting for 15% of our net revenue. These two largest customers accounted for 32% of net accounts receivable at October 1, 2011 (44% at December 25, 2010).



*Investing Activities*

The decrease in cash used for investing activities in the first nine months of 2011, compared to the first nine months of 2010, was primarily due to net sales and maturities of available-for-sale investments and trading assets during the first nine months of 2011 as compared to net purchases of available-for-sale investments and trading assets during the first nine months of 2010. These decreases were partially offset by higher cash paid for acquisitions, of which the substantial majority was for our acquisition of McAfee in the first quarter of 2011, and an increase in capital expenditures as we build and equip our 22nm process technology manufacturing capacity.

---

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

***Financing Activities***

The increase in cash used for financing activities in the first nine months of 2011, compared to the first nine months of 2010, was primarily due to repurchases of common stock under our authorized common stock repurchase program during the first nine months of 2011, partially offset by the issuance of long-term debt in the third quarter of 2011.

***Liquidity***

Cash generated by operations is our primary source of liquidity. As of October 1, 2011, cash and cash equivalents, short-term investments, and marketable debt instruments included in trading assets totaled \$15.2 billion (\$21.5 billion as of December 25, 2010). In addition to the \$15.2 billion, we have \$1.9 billion in loans receivable and other long-term investments that we include when assessing our investment portfolio. Substantially all of our investments in debt instruments are with A/A2 or better rated issuers, and a majority of the issuers are rated AA-/Aa3 or better.

Our commercial paper program provides another potential source of liquidity. We have an ongoing authorization from our Board of Directors to borrow up to \$3.0 billion, including through the issuance of commercial paper. Maximum borrowings under our commercial paper program during the first nine months of 2011 were \$1.4 billion, although no commercial paper remained outstanding as of October 1, 2011. Our commercial paper was rated A-1+ by Standard & Poor's and P-1 by Moody's as of October 1, 2011. We also have an automatic shelf registration statement on file with the SEC pursuant to which we may offer an unspecified amount of debt, equity, and other securities. In the third quarter of 2011, we utilized this shelf registration statement and issued \$5.0 billion aggregate principal of senior unsecured notes. These notes were issued primarily to repurchase shares of our common stock pursuant to our common stock repurchase program, and for general corporate purposes. For further information on the terms of the notes, see Note 21: Borrowings in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

We believe that we have the financial resources needed to meet business requirements for the next 12 months, including capital expenditures for worldwide manufacturing and assembly and test; working capital requirements; and potential dividends, common stock repurchases, and acquisitions or strategic investments.

**Fair Value of Financial Instruments**

When determining fair value, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use when pricing the asset or liability. See Note 5: Fair Value in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

Credit risk is factored into the valuation of financial instruments that we measure and record at fair value. When fair value is determined using pricing models, such as a discounted cash flow model, the issuer's credit risk or Intel's credit risk is factored into the calculation of the fair value, as appropriate.

***Marketable Debt Instruments***

As of October 1, 2011, our assets measured and recorded at fair value on a recurring basis included \$15.1 billion of marketable debt instruments. Of these instruments, \$3.5 billion was classified as Level 1, \$11.3 billion as Level 2, and \$246 million as Level 3.

Our balance of marketable debt instruments that are measured and recorded at fair value on a recurring basis and classified as Level 1 was classified as such due to the use of observable market prices for identical securities that are traded in active markets. Management judgment was required to determine the levels for the frequency of transactions that should be met for a market to be considered active. Our assessment of an active market for our marketable debt instruments generally takes into consideration the number of days each individual instrument trades over a specified period.

Of the \$11.3 billion balance of marketable debt instruments measured and recorded at fair value on a recurring basis and classified as Level 2, approximately 65% of the balance was classified as Level 2 due to the use of a discounted cash flow model and approximately 35% due to the use of non-binding market consensus prices that are corroborated with observable market data.

## Edgar Filing: INTEL CORP - Form 10-Q

Our marketable debt instruments that are measured and recorded at fair value on a recurring basis and classified as Level 3 were classified as such due to the lack of observable market data to corroborate either the non-binding market consensus prices or the non-binding broker quotes. When observable market data is not available, we corroborate the non-binding market consensus prices and non-binding broker quotes using available unobservable data.

---

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

***Loans Receivable***

As of October 1, 2011, our assets measured and recorded at fair value on a recurring basis included \$779 million of loans receivable. All of these securities were classified as Level 2 as the fair value is determined using a discounted cash flow model with all significant inputs derived from or corroborated with observable market data.

***Equity Securities***

As of October 1, 2011, our assets measured and recorded at fair value on a recurring basis included \$522 million of marketable equity securities. The substantial majority of these securities were classified as Level 1 because the valuations were based on quoted prices for identical securities in active markets. Our assessment of an active market for our marketable equity securities generally takes into consideration the number of days that each individual equity security trades over a specified period.

**Contractual Obligations**

During the third quarter of 2011, we issued \$5.0 billion of senior unsecured notes. Our total cash payments (including anticipated interest payments that are not recorded on the consolidated condensed balance sheets) over the life of this long-term debt obligation are expected to be approximately \$8.0 billion. For further information, see Note 21: Borrowings in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

---

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information in this section should be read in connection with the information on financial market risk related to changes in currency exchange rates and changes in interest rates in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 25, 2010. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions as of October 1, 2011 and December 25, 2010. Actual results may differ materially.

**Interest Rates**

We generally hedge interest rate risks of fixed-rate debt instruments with offsetting interest rate swaps. Gains and losses on these investments would generally be offset by corresponding losses and gains on the related hedging instruments, resulting in a negligible net exposure to interest rate loss.

We are exposed to interest rate risk related to our investment portfolio and indebtedness. Our indebtedness includes our debt issuances and the liability associated with a long-term patent cross-license agreement with NVIDIA Corporation. For further information, see Note 18: Identified Intangible Assets in the Notes to the Consolidated Condensed Financial Statements in this Form 10-Q. We refer to our combined investment portfolio, investment hedges, and indebtedness as our net investment position. The primary objective of our investments in debt instruments is to preserve principal while maximizing yields. To achieve this objective, the returns on our investments in debt instruments are generally based on the U.S.-dollar three-month LIBOR. A hypothetical decrease in interest rates of 1.0% would have resulted in an increase in the fair value of our indebtedness of approximately \$950 million as of October 1, 2011 (an increase of approximately \$235 million as of December 25, 2010). The significant increase from December 25, 2010 is primarily driven by the inclusion of the \$5.0 billion of senior unsecured notes issued in the third quarter of 2011. A hypothetical decrease in interest rates of up to 1.0%, after taking into account investment hedges, would have resulted in an increase in the fair value of our investment portfolio of up to approximately \$10 million as of October 1, 2011 (an increase of approximately \$15 million as of December 25, 2010). These hypothetical decreases in interest rates would have resulted in a decrease in the fair value of our net investment position of approximately \$940 million as of October 1, 2011 (a decrease of \$220 million as of December 25, 2010). The fluctuations in fair value of our net investment position reflect only the direct impact of the change in interest rates. Other economic variables, such as equity market fluctuations and changes in relative credit risk, could result in a significantly higher decline in our net investment position. For further information on how credit risk is factored into the valuation of our investment portfolio and debt issuances, see Note 5: Fair Value of Financial Instruments in the Notes to the Consolidated Condensed Financial Statements in this Form 10-Q.

**Equity Prices**

Our marketable equity investments include marketable equity securities and equity derivative instruments such as warrants and options. To the extent that our marketable equity securities have strategic value, we typically do not attempt to reduce or eliminate our equity market exposure through hedging activities; however, for our investments in strategic equity derivative instruments, we may enter into transactions to reduce or eliminate the equity market risks. For securities that we no longer consider strategic, we evaluate legal, market, and economic factors in our decision on the timing of disposal, and whether it is possible and appropriate to hedge the equity market risk.

We hold derivative instruments that seek to offset changes in liabilities related to the equity market risks of certain deferred compensation arrangements. The gains and losses from changes in fair value of these derivatives are designed to offset the gains and losses on the related liabilities, resulting in an insignificant net exposure to loss.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**  
**(Continued)**

As of October 1, 2011, the fair value of our marketable equity investments and our equity derivative instruments, including hedging positions, was \$535 million (\$1.5 billion as of December 25, 2010). Our marketable equity investments in Imagination Technologies Group PLC and Clearwire Corporation were carried at a total fair market value of \$317 million, or 59% of our marketable equity portfolio, as of October 1, 2011. Our marketable equity method investment in SMART is excluded from our analysis, as the carrying value does not fluctuate based on market price changes unless an other-than-temporary impairment is deemed necessary. To determine reasonably possible decreases in the market value of our marketable equity investments, we analyzed the expected market price sensitivity of our marketable equity investment portfolio. Assuming a loss of 50% in market prices, and after reflecting the impact of hedges and offsetting positions, the aggregate value of our marketable equity investments could decrease by approximately \$270 million, based on the value as of October 1, 2011 (a decrease in value of approximately \$365 million, based on the value as of December 25, 2010 using an assumed loss of 40%).

Many of the same factors that could result in an adverse movement of equity market prices affect our non-marketable equity investments, although we cannot always quantify the impact directly. Financial markets are volatile, which could negatively affect the prospects of the companies we invest in, their ability to raise additional capital, and the likelihood of our being able to realize value in our investments through liquidity events such as initial public offerings, mergers, and private sales. These types of investments involve a great deal of risk, and there can be no assurance that any specific company will grow or become successful; consequently, we could lose all or part of our investment. Our non-marketable equity investments, excluding investments accounted for under the equity method, had a carrying amount of \$1.1 billion as of October 1, 2011 (\$872 million as of December 25, 2010). As of October 1, 2011, the carrying amount of our non-marketable equity method investments was \$1.7 billion (\$1.8 billion as of December 25, 2010). Approximately half of the total non-marketable equity investments balance as of October 1, 2011 was concentrated in our IMFT/IMFS investment of \$1.4 billion (\$1.5 billion as of December 25, 2010).

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Based on management's evaluation (with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO)), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Inherent Limitations on Effectiveness of Controls**

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

---

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 26: Contingencies in Part I, Item 1 of this Form 10-Q.

### ITEM 1A. RISK FACTORS

We describe our business risk factors below. This description includes any material changes to and supersedes the description of the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 25, 2010.

#### ***Fluctuations in demand for our products may harm our financial results and are difficult to forecast.***

If demand for our products fluctuates, our revenue and profitability could be harmed. Important factors that could cause demand for our products to fluctuate include:

- changes in business and economic conditions, including downturns in the computing industry and the overall economy;
- changes in consumer confidence or disposable income caused by changes in market conditions, including changes in government borrowing, taxation, or spending policies; the credit market; expectations for inflation, unemployment levels, and energy or other commodity prices;
- changes in the level of customers' components inventories;
- competitive pressures, including pricing pressures, from companies that have competing products, chip architectures, manufacturing technologies, and marketing programs;
- changes in customer product needs;
- strategic actions taken by our competitors;
- market acceptance of our products; and
- potential disruptions in the high technology supply chain, including supply constraints.

If product demand decreases or we fail to forecast demand accurately, we could be required to write off inventory or record excess capacity charges, which would have a negative impact on our gross margin. In addition, if product demand decreases, our manufacturing or assembly and test capacity could be underutilized, and we may be required to record an impairment on our long-lived assets, including facilities and equipment as well as intangible assets, which would increase our expenses. Factory-planning decisions may shorten the useful lives of long-lived assets, including facilities and equipment, and cause us to accelerate depreciation. In the long term, if product demand increases, we may not be able to add manufacturing or assembly and test capacity fast enough to meet market demand. These changes in demand for our products, and changes in our customers' product needs, could have a variety of negative effects on our competitive position and our financial results, and, in certain cases, may reduce our revenue, increase our costs, lower our gross margin percentage, or require us to recognize impairments of our assets.

#### ***The semiconductor industry and our operations are characterized by a high percentage of costs that are fixed or difficult to reduce in the short term, and by product demand that is highly variable and subject to significant downturns that may harm our business, results of operations, and financial condition.***

The semiconductor industry and our operations are characterized by high costs, such as those related to facility construction and equipment, R&D, and employment and training of a highly skilled workforce, that are either fixed or difficult to reduce in the short term. At the same time, demand for our products is highly variable and there have been downturns, often in connection with maturing product cycles and general economic market conditions. These downturns have been characterized by reduced product demand, manufacturing overcapacity and resulting excess capacity charges, high inventory levels, and lower average selling prices. The combination of these factors may cause our revenue, gross margin, cash flow, and profitability to vary significantly in both the short and long term.

#### ***We operate in intensely competitive industries, and our failure to respond quickly to technological developments and incorporate new features into our products could harm our ability to compete.***

We operate in intensely competitive industries that experience rapid technological developments, changes in industry standards, changes in customer requirements, and frequent new product introductions and improvements. If we are unable to respond quickly and successfully to these developments, we may lose our competitive position, and our products or technologies may become uncompetitive or obsolete. As new computing market segments emerge, such as netbooks, handhelds, tablets, and consumer electronics devices, we face new sources of competition, and customers that have different requirements than customers in our traditional PC business. To be successful, we need to cultivate new industry relationships in these market segments. As the number and variety of Internet-connected devices increase, we need to



## Edgar Filing: INTEL CORP - Form 10-Q

improve the cost, energy efficiency, and security functionality of our microprocessors to succeed in these new market segments. In addition, we need to focus on the acquisition and development of our software capabilities in order to provide customers with complete computing solutions.

To compete successfully, we must maintain a successful R&D effort, develop new products and production processes, and improve our existing products and processes at the same pace or ahead of our competitors. Our R&D efforts are aimed at solving increasingly complex problems, and we do not expect that all of our projects will be successful. If our R&D efforts are unsuccessful, our future results of operations could be materially harmed. We may not be able to develop and market these new products successfully, the products we invest in and develop may not be well received by customers, and products developed and new technologies offered by others may affect demand for our products. These types of events could have a variety of negative effects on our competitive position and our financial results, such as reducing our revenue, increasing our costs, lowering our gross margin percentage, and requiring us to recognize impairments on our assets.

***Litigation or regulatory proceedings could harm our business.***

We may be subject to legal claims or regulatory matters involving stockholder, consumer, competition, and other issues on a global basis. As described in Note 26: Contingencies in Part I, Item 1 of this Form 10-Q, we are currently engaged in a number of litigation and regulatory matters. Litigation and regulatory proceedings are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or, in cases for which injunctive relief is sought, an injunction prohibiting us from manufacturing or selling one or more products, precluding particular business practices, or requiring other remedies, such as compulsory licensing of intellectual property. If we were to receive an unfavorable ruling in a matter, our business and results of operations could be materially harmed.

***Fluctuations in the mix of products sold may harm our financial results.***

Because of the wide price differences among and within notebook, netbook, tablet, desktop, and server microprocessors, the mix and types of performance capabilities of microprocessors sold affect the average selling prices of our products and have a substantial impact on our revenue and gross margin. Our financial results also depend in part on the mix of other products that we sell, such as chipsets, flash memory, and other semiconductor products. In addition, more recently introduced products tend to have higher associated costs because of initial overall development and production ramp. Fluctuations in the mix and types of our products may also affect the extent to which we are able to recover the fixed costs and investments associated with a particular product, and as a result can harm our financial results.

***Our global operations subject us to risks that may harm our results of operations and financial condition.***

We have sales offices, R&D, manufacturing, assembly and test facilities, and other facilities in many countries, and some business activities may be concentrated in one or more geographic areas. As a result, we are subject to risks that may limit our ability to manufacture, assemble and test, design, develop, or sell products in particular countries or on a geographic basis, which could harm our results of operations and financial condition, including:

- security concerns, such as armed conflict and civil or military unrest, crime, political instability, and terrorist activity;
- health concerns;
- natural disasters;
- inefficient and limited infrastructure and disruptions, such as large-scale outages or interruptions of service from utilities, transportation, or telecommunications providers and supply chain interruptions;
- restrictions on our operations by governments seeking to support local industries, nationalization of our operations, and restrictions on our ability to repatriate earnings;
- differing employment practices and labor issues;
- local business and cultural factors that differ from our normal standards and practices, including business practices that we are prohibited from engaging in by the Foreign Corrupt Practices Act (FCPA) and other anti-corruption laws and regulations; and
- regulatory requirements and prohibitions that differ among jurisdictions.

Violations of these laws and regulations could result in fines; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business; and damage to our reputation. Although we have implemented policies, controls, and procedures designed to ensure compliance with these laws, our employees, contractors, or agents may violate our policies.

In addition, although substantially all of our revenue is transacted in U.S. dollars, we incur a significant amount of certain types of expenses, such as payroll, utilities, tax, and marketing expenses, as well as conduct certain investing and financing activities, in local currencies. Our hedging programs reduce, but do not entirely eliminate, the impact of currency exchange rate movements; therefore, fluctuations in exchange rates could harm our results and financial condition. In addition, changes in tariff and import regulations and in U.S. and non-U.S. monetary policies may harm our results and financial condition by increasing our expenses and reducing our revenue. Varying tax rates in different jurisdictions could harm our results of operations and financial condition by increasing our overall tax rate.

We maintain a program of insurance coverage for various types of property, casualty, and other risks. We place our insurance coverage with various carriers in numerous jurisdictions. However, there is a risk that one or more of our insurance providers may be unable or unwilling to pay a claim. The types and amounts of insurance that we obtain vary from time to time and from location to location, depending on availability, cost, and our decisions with respect to risk retention. The policies are subject to deductibles and exclusions that result in our retention of a level of risk on a self-insurance basis. Losses not covered by insurance may be substantial, which could harm our results of operations and financial condition.

***Failure to meet our production targets, resulting in undersupply or oversupply of products, may harm our business and results of operations.***

Production of integrated circuits is a complex process. Disruptions in this process can result from interruptions in our processes, errors, and difficulties in our development and implementation of new processes; defects in materials; disruptions in our supply of materials or resources; and disruptions at our fabrication and assembly and test facilities due to, for example, accidents, maintenance issues, or unsafe working conditions all of which could affect the timing of production ramps and yields. We may not be successful or efficient in developing or implementing new production processes, including our current transition to 22nm process technology. The occurrence of any of the foregoing may result in our failure to meet or increase production as desired, resulting in higher costs or substantial decreases in yields, which could affect our ability to produce sufficient volume to meet specific product demand. The unavailability or reduced availability of certain products could make it more difficult to deliver computing platforms. The occurrence of any of these events could harm our business and results of operations.

***We may have difficulties obtaining the resources or products we need for manufacturing, assembling and testing our products, or operating other aspects of our business, which could harm our ability to meet demand for our products and may increase our costs.***

We have thousands of suppliers providing various materials that we use in the production of our products and other aspects of our business, and we seek, where possible, to have several sources of supply for all of those materials. However, we may rely on a single or a limited number of suppliers, or upon suppliers in a single location, for these materials. The inability of such suppliers to deliver adequate supplies of production materials or other supplies could disrupt our production processes or could make it more difficult for us to implement our business strategy. In addition, production could be disrupted by the unavailability of the resources used in production, such as water, silicon, electricity, gases, and other materials. Future environmental regulations could restrict the supply or increase the cost of certain of the materials that we currently use in our business. Environmental regulations also may make it more difficult to obtain permits to build or modify additional manufacturing capacity to meet demand. The unavailability or reduced availability of the materials or resources that we use in our business may require us to reduce production of products or may require us to incur additional costs in order to obtain an adequate supply of those materials or resources. The occurrence of any of these events could harm our business and results of operations.

***Costs related to product defects and errata may harm our results of operations and business.***

Costs associated with unexpected product defects and errata (deviations from published specifications) due to, for example, unanticipated problems in our design and manufacturing processes, could include:

- writing off the value of inventory of such products;
- disposing of products that cannot be fixed;
- recalling such products that have been shipped to customers;
- providing product replacements for, or modifications to, such products; and
- defending against litigation related to such products.

These costs could be substantial and may therefore increase our expenses and lower our gross margin. In addition, our reputation with our customers or users of our products could be damaged as a result of such product defects and errata, and the demand for our products could be reduced. The announcement of product defects and errata could cause customers to purchase products from our competitors as a result of anticipated shortages of Intel components or for other reasons. These factors could harm our financial results and the prospects for our business.

---

***We may be subject to claims of infringement of third-party intellectual property rights, which could harm our business.***

Third parties may assert against us or our customers alleged patent, copyright, trademark, or other intellectual property rights to technologies that are important to our business. We are currently engaged in a number of litigation matters involving intellectual property rights. We may be subject to intellectual property infringement claims from certain individuals and companies, including those who have acquired patent portfolios for the sole purpose of asserting such claims against other companies. Any claims that our products or processes infringe the intellectual property rights of others, regardless of the merit or resolution of such claims, could cause us to incur significant costs in responding to, defending, and resolving such claims, and may divert the efforts and attention of our management and technical personnel from our business. As a result of such intellectual property infringement claims, we could be required or otherwise decide that it is appropriate to:

- pay third-party infringement claims;
- discontinue manufacturing, using, or selling particular products subject to infringement claims;
- discontinue using the technology or processes subject to infringement claims;
- develop other products or technology not subject to infringement claims, which could be time-consuming and costly or may not be possible; or
- license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms.

The occurrence of any of the foregoing could harm our competitive position, result in unexpected expenses or require us to recognize an impairment of our assets, which would reduce the value of our assets and increase expenses. In addition, if we alter or discontinue our production of affected items, our revenue could be harmed.

***We may not be able to enforce or protect our intellectual property rights, which may harm our ability to compete and harm our business.***

Our ability to enforce our patents, copyrights, software licenses, and other intellectual property rights is subject to general litigation risks, as well as uncertainty as to the enforceability of our intellectual property rights in various countries. When we seek to enforce our rights, we are often subject to claims that the intellectual property right is invalid, is otherwise not enforceable, or is licensed to the party against whom we are asserting a claim. In addition, our assertion of intellectual property rights often results in the other party seeking to assert alleged intellectual property rights of its own or assert other claims against us, which could harm our business. In addition, governments may adopt regulations, and governments or courts may render decisions, requiring compulsory licensing of intellectual property to others, or governments may require that products meet specified standards that serve to favor local companies. Our inability to enforce our intellectual property rights under these circumstances may harm our competitive position and our business.

***We may be subject to intellectual property theft or misuse, which could result in third-party claims and harm our business and results of operations.***

We regularly face attempts by others to gain unauthorized access through the Internet to our information technology systems, such as when they masquerade as authorized users or surreptitiously introduce software. These attempts, which might be the result of industrial or other espionage, or actions by hackers seeking to harm the company, its products, or end users, are sometimes successful. In part because of the high profile of our McAfee subsidiary in the network and system protection business, we might become a target of computer hackers who create viruses to sabotage or otherwise attack our products and services. Hackers might attempt to penetrate our network security and gain access to our network and our data centers, misappropriate our or our customers' proprietary information, including personally identifiable information, or cause interruptions of our internal systems and services. We seek to detect and investigate these security incidents and to prevent their recurrence, but in some cases we might be unaware of an incident or its magnitude and effects. The theft or unauthorized use or publication of our trade secrets and other confidential business information as a result of such an incident could adversely affect our competitive position and reduce marketplace acceptance of our products; the value of our investment in R&D, product development, and marketing could be reduced; and third parties might assert against us or our customers claims related to resulting losses of confidential or proprietary information or end-user data, or system reliability. Our business could be subject to significant disruption, and we could suffer monetary and other losses, including the cost of product recalls and returns and reputational harm, in the event of such incidents and claims.

***Our licenses with other companies and our participation in industry initiatives may allow other companies, including our competitors, to use our patent rights.***

Companies in the computing industry often bilaterally license patents between each other to settle disputes or as part of business agreements between them. Our competitors may have licenses to our patents, and under current case law, some of the licenses may permit these competitors to pass our patent rights on to others under some circumstances. In addition, our participation in industry standards organizations or with other industry initiatives may require us to license our patents to other companies that adopt certain industry standard specifications. Depending on the rules of the organization, we might have to grant these licenses to our patents for little or no cost, as a result, we may be unable to enforce certain patents against others, our costs of enforcing our licenses or protecting our patents may increase, and the value of our intellectual property may be impaired.



***We face risks related to our product sales through distributors and other third parties.***

We sell a portion of our products through third parties such as distributors, value-added resellers, original equipment manufacturers, internet service providers, and channel partners (collectively referred to as distributors). Using third parties for distribution exposes us to numerous risks, including competitive pressure, concentration, credit risk, and compliance risks. Our distributors may sell other companies' products that compete with our products, and we may need to provide financial and other incentives to focus distributors on the sale of our products. We may rely on one or more key distributors for a particular product, and the loss of these distributors could adversely impact our revenue. Our distributors may face financial difficulties, including bankruptcy, which could adversely impact our collection of accounts receivable and negatively affect our financial results. Violations of FCPA or similar laws by distributors or other third party intermediaries could have a material impact on our business. If we fail to manage these or other risks related to our use of distributors successfully, our sales may be reduced, our expenses may be increased, and our competitive position may be weakened.

***We face risks related to our sales to government entities.***

We derive a portion of our revenues from sales to U.S. and foreign federal, state, and local governments and their respective agencies. Government demand and payment for our products may be affected by public sector budgetary cycles and funding authorizations, and funding reductions or delays could negatively impact demand for our products and services. Additionally, government contracts are subject to government oversight on matters such as special rules on accounting, expenses, reviews and security, and our failure to comply with such special rules could result in civil and criminal penalties and administrative sanction, including termination of contracts, fines and suspensions, or debarment from future government business.

***We invest in companies for strategic reasons and may not realize a return on our investments.***

We make investments in companies around the world to further our strategic objectives and support our key business initiatives. Such investments include equity or debt instruments of public or private companies, and many of these instruments are non-marketable at the time of our initial investment. These companies range from early-stage companies that are often still defining their strategic direction to more mature companies with established revenue streams and business models. The success of these companies is dependent on product development, market acceptance, operational efficiency, and other key business factors. The companies in which we invest may fail because they may not be able to secure additional funding, obtain favorable investment terms for future financings, or participate in liquidity events such as public offerings, mergers, and private sales. If any of these private companies fail, we could lose all or part of our investment in that company. If we determine that an other-than-temporary decline in the fair value exists for an equity or debt investment in a public or private company in which we have invested, we write down the investment to its fair value and recognize the related write-down as an investment loss. We also have significant investments in companies in the flash memory market segment, and declines in this market segment or changes in management's plans with respect to our investments in this market segment could result in significant impairment charges, impacting gains (losses) on equity method investments, net and gains (losses) on other equity investments, net.

When the strategic objectives of an investment have been achieved, or if the investment or business diverges from our strategic objectives, we may decide to dispose of the investment. We may incur losses on the disposal of our non-marketable investments. Additionally, for cases in which we are required under equity method accounting to recognize a proportionate share of another company's income or loss, such income or loss may impact our earnings. Gains or losses from equity securities could vary from expectations depending on gains or losses realized on the sale or exchange of securities, gains or losses from equity method investments, and impairment charges for equity and other investments.

***Our results of operations could vary as a result of the methods, estimates, and judgments that we use in applying our accounting policies.***

The methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on our results of operations (see "Critical Accounting Estimates" in Part I, Item 2 of this Form 10-Q). Such methods, estimates, and judgments are, by their nature, subject to substantial risks, uncertainties, and assumptions, and factors may arise over time that lead us to change our methods, estimates, and judgments. Changes in those methods, estimates, and judgments could significantly affect our results of operations.

***Changes in our effective tax rate may harm our results of operations.***

A number of factors may increase our future effective tax rates, including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities, and changes in deferred tax valuation allowances;
- adjustments to income taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairments of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in tax laws or the interpretation of such tax laws, including changes in the U.S. to the taxation of foreign income and expenses;
- changes in U.S. generally accepted accounting principles; and
- our decision to repatriate non-U.S. earnings for which we have not previously provided for U.S. taxes.

Any significant increase in our future effective tax rates could reduce net income for future periods.

***Decisions about the scope of operations of our business could affect our results of operations and financial condition.***

Changes in the business environment could lead to changes in our decisions about the scope of operations of our business, and these changes could result in restructuring and asset impairment charges. Factors that could affect our results of operations and financial condition with regard to changing the scope of our operations include:

- timing and execution of plans and programs that may be subject to local labor law requirements, including consultation with appropriate work councils;
- changes in assumptions related to severance and postretirement costs;
- future divestitures;
- new business initiatives and changes in product roadmap, development, and manufacturing;
- changes in employment levels and turnover rates;
- changes in product demand and the business environment; and
- changes in the fair value of certain long-lived assets.

***Our acquisitions, divestitures, and other transactions could disrupt our ongoing business and harm our results of operations.***

In pursuing our business strategy, we routinely conduct discussions, evaluate opportunities, and enter into agreements regarding possible investments, acquisitions, divestitures, and other transactions, such as joint ventures. Acquisitions and other transactions involve significant challenges and risks, including risks that:

- we may not be able to identify suitable opportunities on terms acceptable to us;
- the transaction may not advance our business strategy;
- we may not realize a satisfactory return on the investment we make;
- we may not be able to retain key personnel of the acquired business;
- we may experience difficulty in integrating new employees, business systems, and technology;
- acquired businesses may not have adequate controls, processes, and procedures to ensure compliance with laws and regulations globally, and our due diligence process may not identify compliance issues or other liabilities that are in existence at the time of our acquisition;
- we may have difficulty entering into new market segments in which we are not experienced; or
- we may be unable to retain the customers and partners of acquired businesses following the acquisition.

When we decide to sell assets or a business, we may encounter difficulty in finding or completing divestiture opportunities or alternative exit strategies on acceptable terms in a timely manner, and the agreed terms and financing arrangements could be renegotiated due to changes in business or market conditions. These circumstances could delay the accomplishment of our strategic objectives or cause us to incur additional expenses with respect to businesses that we want to dispose of, or we may dispose of a business at a price or on terms that are less favorable than we had anticipated, resulting in a loss on the transaction.

If we do enter into agreements with respect to acquisitions, divestitures, or other transactions, we may fail to complete them due to factors such as:

- failure to obtain required regulatory or other approvals;
- intellectual property or other litigation; or
- difficulties that we or other parties may encounter in obtaining financing for the transaction.





***In order to compete, we must attract, retain, and motivate key employees, and our failure to do so could harm our results of operations.***

In order to compete, we must attract, retain, and motivate executives and other key employees. Hiring and retaining qualified executives, scientists, engineers, technical staff, and sales representatives are critical to our business, and competition for experienced employees in the computing industry can be intense. To help attract, retain, and motivate qualified employees, we use share-based incentive awards such as non-vested share units (restricted stock units) and employee stock options. If the value of such stock awards does not appreciate as measured by the performance of the price of our common stock, or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain, and motivate employees could be weakened, which could harm our results of operations.

***Our failure to comply with applicable environmental laws and regulations worldwide could harm our business and results of operations.***

The manufacturing and assembling and testing of our products require the use of hazardous materials that are subject to a broad array of EHS laws and regulations. Our failure to comply with any of those applicable laws or regulations could result in:

- regulatory penalties, fines, and legal liabilities;
- suspension of production;
- alteration of our fabrication and assembly and test processes; and
- curtailment of our operations or sales.

In addition, our failure to manage the use, transportation, emissions, discharge, storage, recycling, or disposal of hazardous materials could subject us to increased costs or future liabilities. Existing and future environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify our product designs, or incur other expenses associated with such laws and regulations. Many new materials that we are evaluating for use in our operations may be subject to regulation under existing or future environmental laws and regulations that may restrict our use of one or more of such materials in our manufacturing, assembly and test processes, or products. Any of these restrictions could harm our business and results of operations by increasing our expenses or requiring us to alter our manufacturing and assembly and test processes.

***Climate change poses both regulatory and physical risks that could harm our results of operations or affect the way we conduct our business.***

In addition to the possible direct economic impact that climate change could have on us, climate change mitigation programs and regulations can increase our costs. For example, the cost of perfluorocompounds (PFCs), a gas that we use in manufacturing, could increase over time under some climate-change-focused emissions trading programs that may be imposed by government regulation. If the use of PFCs is prohibited, we would need to obtain substitute materials that may cost more or be less available for our manufacturing operations. In addition, air quality permit requirements for our manufacturing operations could become more burdensome and cause delays in our ability to modify or build additional manufacturing capacity. Under recently adopted greenhouse gas regulations in the U.S., many of our manufacturing facilities have become major sources under the Clean Air Act. At a minimum, this change in status will result in some uncertainty as the EPA adopts guidance on implementation of its greenhouse gas regulations. Due to the dynamic nature of our semiconductor manufacturing operations, it is likely these new regulations will result in increased costs for our U.S. operations. These cost increases could be associated with new air pollution control requirements, and increased or new monitoring, recordkeeping, and reporting of greenhouse gas emissions. We also see the potential for higher energy costs driven by climate change regulations. Our costs could increase if utility companies pass on their costs, such as those associated with carbon taxes, emission cap and trade programs, or renewable portfolio standards. While we maintain business recovery plans that are intended to allow us to recover from natural disasters or other events that can be disruptive to our business, we cannot be sure that our plans will fully protect us from all such disasters or events. Many of our operations are located in semi-arid regions, such as Israel and the southwestern U.S. Some scenarios predict that these regions may become even more vulnerable to prolonged droughts due to climate change.

***Interest and other, net could be impacted by macroeconomic and other factors, harming our results of operations.***

Factors that could cause interest and other, net in our consolidated condensed statements of income to fluctuate include:

- fixed-income, equity, and credit market volatility;
- fluctuations in foreign currency exchange rates;
- fluctuations in interest rates;
- changes in the credit standing of financial instrument counterparties; and
- changes in our cash and investment balances.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

We have an ongoing authorization, since October 2005, as amended, from our Board of Directors to repurchase up to \$45 billion in shares of our common stock in open market or negotiated transactions. This amount includes the \$10 billion increase in the authorization limit approved by our Board of Directors in September 2011. As of October 1, 2011, \$14.2 billion remained available for repurchase under the existing repurchase authorization limit.

Common stock repurchase activity under our authorized plan during the third quarter of 2011 was as follows (in millions, except per share amounts):

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Dollar Value of Shares that May Yet Be Purchased Under the Plans</b>
July 3, 2011-July 30, 2011	38.0	\$ 22.63	38.0	\$ 7,371
July 31, 2011-August 27, 2011	88.4	\$ 20.78	88.4	\$ 5,534
August 28, 2011-October 1, 2011	59.8	\$ 21.79	59.8	\$ 14,231
<b>Total</b>	<b>186.2</b>	<b>\$ 21.48</b>	<b>186.2</b>	

For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. Although these withheld shares are not issued or considered common stock repurchases under our authorized plan and are not included in the common stock repurchase totals in the preceding table, they are treated as common stock repurchases in our financial statements, as they reduce the number of shares that would have been issued upon vesting.

**ITEM 6. EXHIBITS**

Exhibit Number	Exhibit Description	Form	Incorporated by Reference			Filed Herewith
			File Number	Exhibit	Filing Date	
3.1	Intel Corporation Third Restated Certificate of Incorporation of Intel Corporation dated May 17, 2006	8-K	000-06217	3.1	5/22/2006	
3.2	Intel Corporation Bylaws, as amended and restated on July 26, 2011	8-K	000-06217	3.1	7/27/2011	
4.0	Second Supplemental Indenture, dated as of September 19, 2011, between Intel Corporation and Wells Fargo Bank, National Association, as successor trustee	8-K	000-06217	4.01	9/19/2011	
12.1	Statement Setting Forth the Computation of Ratios of Earnings to Fixed Charges					X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)					X
31.2	Certification of Chief Financial Officer and Principal Accounting Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer and Principal Accounting Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

*Intel, Intel logo, Intel Core, Intel Atom, and Ultrabook are trademarks of Intel Corporation in the U.S. and/or other countries.*

*\* Other names and brands may be claimed as the property of others.*

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEL CORPORATION

(Registrant)

Date: November 4, 2011

By: /s/ Stacy J. Smith  
Stacy J. Smith  
Senior Vice President, Chief Financial Officer, and  
Principal Accounting Officer