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ITEM 7. 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 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.
- *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 2012 to 2011 and comparing 2011 to 2010.
- *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.
- *Contractual Obligations and Off-Balance-Sheet Arrangements*. Overview of contractual obligations, contingent liabilities, commitments, and off-balance-sheet arrangements outstanding as of December 29, 2012, including expected payment schedule.

The various sections of this MD&A contain a number of forward-looking statements that involve a number of risks and uncertainties. Words such as "anticipates," "expects," "intends," "goals," "plans," "believes," "seeks," "estimates," "continues," "may," "will," "should," 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, uncertain events or assumptions, 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 "Risk Factors" in Part I, Item 1A of this Form 10-K. 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 February 19, 2013.

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

Overview

Our results of operations were as follows:

(Dollars in Millions)	Three Months Ended Dec. 29, 2012	Sept. 29, 2012	Change	Twelve Months Ended Dec. 29, 2012	Dec. 31, 2011	Change
Net revenue	$13,477	$13,457	$ 20	$53,341	$53,999	$ (658)
Gross margin	$ 7,817	$ 8,515	$ (698)	$33,151	$33,757	$ (606)
Gross margin percentage	58.0%	63.3%	(5.3)%	62.1%	62.5%	(0.4)%
Operating income	$ 3,155	$ 3,841	$ (686)	$14,638	$17,477	$ (2,839)
Net income	$ 2,468	$ 2,972	$ (504)	$11,005	$12,942	$ (1,937)
Diluted earnings per common share	$ 0.48	$ 0.58	$ (0.10)	$ 2.13	$ 2.39	$ (0.26)

Our revenue for 2012 was down 1% from 2011 and lower than we expected at the start of the year. Worldwide gross domestic product growth was less than expected as we entered 2012, and PC Client Group revenue was negatively impacted by the growth of tablets as these devices compete with PCs for consumer sales. Data Center Group revenue grew 6% in 2012 as a richer mix of products and significant growth in the Internet cloud segment was partially offset by weakness in the enterprise market segment. Our gross margin percentage for 2012 was flat compared to 2011 as higher excess capacity charges and higher platform unit costs were offset by lower start-up costs and no impact in 2012 for the Intel® 6 Series Express Chipset design issue.

Our fourth quarter revenue of $13.5 billion was flat from the third quarter of 2012. Historically, our revenue generally has increased in the fourth quarter. However, softness in PC demand and continued decline of inventory in the PC supply chain as OEMs reduce inventory on older-generation products negatively impacted our results for the fourth quarter. The decline in our gross margin percentage in the fourth quarter was driven by excess capacity charges as we responded to lower demand by bringing down inventory levels and redirecting capital resources to our 14nm process technology. Our gross margin was also negatively impacted by higher inventory reserves on production of our next-generation microarchitecture products, code-named Haswell, which we expect to qualify for sale in the first quarter of 2013.

During 2012 we made significant product introductions across all our businesses, including PC client, servers, smartphones and tablets, and extended our manufacturing and process technology leadership. We launched our next-generation server-based products, the Intel Xeon processor E5 family, which provides higher performance and better energy-efficiency than prior-generation products. In 2012 we continued to extend our process technology leadership with the introduction of our 22nm process technology products that utilize three-dimensional Tri-Gate transistor technology. These products also improve performance and energy efficiency compared to prior generation products and helped us accelerate our Ultrabook strategy. In 2012 we entered the smartphone market segment with six mobile phone providers launching the first Intel architecture-based smartphones. We are also expanding in the tablet market segment with designs based on Android* and Windows* operating systems currently shipping.

In a challenging environment our business continues to produce significant cash from operations, generating $18.9 billion in 2012. We returned $4.4 billion to stockholders through dividends and repurchased $4.8 billion of common stock through our common stock repurchase program. In addition, we purchased $11.0 billion in capital assets as we continue to make significant investments to extend our manufacturing leadership. During the third quarter of 2012, we also entered into a series of agreements with ASML intended to accelerate the development of 450-millimeter (mm) wafer technology and extreme ultra-violet (EUV) lithography. The agreements included Intel's purchase of ASML equity securities totaling $3.2 billion. We also took advantage of the low interest rate environment in 2012 and issued $6.2 billion of senior notes. From a financial condition perspective, we ended the year with an investment portfolio of $18.2 billion, which consisted of cash and cash equivalents, short-term investments, and trading assets. In January 2013, the Board of Directors declared a cash dividend of $0.225 per common share for the first quarter of 2013.

As we look into 2013, we expect revenue to grow in the low single digits with particular strength in our server market segment. We believe the renewed innovation in the PC industry that we fostered with Ultrabook systems and expanded to other thin and light form factors, will blur the lines between tablets and notebooks and provide growth opportunities in 2013. We also expect to launch new SoCs for smartphones and tablets, based on our 22nm process technology. In 2013, we expect an increase in capital expenditures primarily driven by beginning construction of a 450mm development facility as we progress toward manufacturing with 450mm wafer technology later in the decade.

Our Business Outlook for the first quarter and full-year 2013 includes, where applicable, our current expectations for revenue, gross margin percentage, spending (R&D plus MG&A), and capital expenditures. We will keep our most current Business Outlook publicly available on our Investor Relations web site *www.intc.com*. This Business Outlook is not incorporated by reference into this Form 10-K. 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 Business Outlook or in this Form 10-K. 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 Business Outlook and forward-looking statements in this Form 10-K are subject to revision during the course of the year in our quarterly earnings releases and SEC filings and at other times.

The forward-looking statements in Business Outlook will be effective through the close of business on March 15, 2013 unless updated earlier. From the close of business on March 15, 2013 until our quarterly earnings release is published, currently scheduled for April 16, 2013, we will observe a "quiet period." During the quiet period, Business Outlook and other forward-looking statements first published in our Form 8-K filed on January 17, 2013, and other forward-looking statements disclosed in the company's news releases and filings with the SEC, as reiterated or updated as applicable in this Form 10-K, 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.

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 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 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.

In the following section, 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 $2.2 billion as of December 29, 2012 ($2.8 billion as of December 31, 2011).

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 balance sheets.

Non-marketable equity investments are inherently risky, and their success depends 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 I, Item 1A of this Form 10-K.

We determine the fair value of our non-marketable equity investments portfolio 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 relevant factors, including comparable companies' sizes, growth rates, industries, and development stages. 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 available market, historical, and forecast 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.

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 and 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 whether 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 $104 million in 2012. Over the past 12 quarters, including the fourth quarter of 2012, impairments of non- marketable equity investments ranged from $8 million to $59 million per quarter.

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 we will continue to use 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. We measure the impairment 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 fourth quarter of 2012, impairments and accelerated depreciation of property, plant and equipment ranged from zero to $36 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. 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 28: Operating Segment and Geographic Information" in Part II, Item 8 of this Form 10-K.

We perform an annual impairment assessment in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, 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 that it is more likely than not that the fair value is more than its carrying value, goodwill is not considered impaired and we are not required to perform the two-step goodwill impairment test. Qualitative factors considered in this assessment include industry and market considerations, overall financial performance, and other relevant events and factors affecting the reporting unit.

For reporting units in which the impairment assessment concludes that it is more likely than not that the fair value is less than its carrying value, we perform the first step of the goodwill impairment test, which compares the fair value of the reporting unit to its carrying value. 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 additional 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 goodwill impairment test to determine the implied fair value of the reporting unit's goodwill. If we determine during this second step that the carrying value of a reporting unit's goodwill exceeds its implied fair value, we 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 goodwill impairment test uses a weighting of the income method and the market method to estimate the reporting unit's fair value. The income method 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 our assumed market segment share; estimated costs; and appropriate discount rates based on the reporting units' 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. These estimates 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 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. The market method is based on financial multiples of comparable companies and applies a control premium. The reporting unit's carrying value represents the assignment of various assets and liabilities, excluding certain corporate assets and liabilities, such as cash, investments, and debt.

For the annual impairment assessment in 2012, we determined that for each of our reporting units with significant amounts of goodwill, it was more likely than not that the fair value of the reporting units exceeded the carrying value. As a result, we concluded that performing the first step of the goodwill impairment test was not necessary for those reporting units. During the fourth quarter of each of the prior three fiscal years, we completed our annual impairment assessments and concluded that goodwill was not impaired in any 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 comparing the carrying amount of the asset to the future undiscounted cash flows that the asset is expected to generate. We perform an annual impairment assessment in the fourth quarter of each year for indefinite-lived intangible assets, or more frequently if indicators of potential impairment exist, to determine whether it is more likely than not that the carrying value of the assets may not be recoverable. Recoverability of indefinite-lived intangible assets is measured by comparing the carrying amount of the asset to the future discounted cash flows that the asset is expected to generate. If we determine 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 recognized impairment charges of $21 million in 2012, $10 million in 2011, and no impairment charges in 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 balance sheets. However, should a change occur in our 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.

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 whether 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 December 29, 2012, we had total work-in-process inventory of $2.2 billion and total finished goods inventory of $2.0 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 our 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.

To determine which 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; therefore, it 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. In the fourth quarter of 2012, excess capacity charges were $480 million. In the previous 11 quarters, excess capacity charges were less than $50 million in each quarter.

Loss Contingencies

We are subject to various legal and administrative proceedings and asserted and potential claims as well as accruals related to repair or replacement of parts in connection with product errata, and 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. Disclosure of a loss contingency is required if there is at least a reasonable possibility that a material 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. These revisions could have a material impact on our results of operations and financial position.

Accounting Changes

For a description of accounting changes, see "Note 3: Accounting Changes."

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

Results of Operations

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

	2012		2011		2010	
(Dollars in Millions, Except Per Share Amounts)	Dollars	% of Net Revenue	Dollars	% of Net Revenue	Dollars	% of Net Revenue
Net revenue	**$ 53,341**	**100.0%**	**$ 53,999**	**100.0%**	**$ 43,623**	**100.0%**
Cost of sales	20,190	37.9%	20,242	37.5%	15,132	34.7%
Gross margin	**33,151**	**62.1%**	**33,757**	**62.5%**	**28,491**	**65.3%**
Research and development	10,148	19.0%	8,350	15.4%	6,576	15.1%
Marketing, general and administrative	8,057	15.1%	7,670	14.2%	6,309	14.5%
Amortization of acquisition-related intangibles	308	0.6%	260	0.5%	18	—%
Operating income	**14,638**	**27.4%**	**17,477**	**32.4%**	**15,588**	**35.7%**
Gains (losses) on equity investments, net	141	0.3%	112	0.2%	348	0.8%
Interest and other, net	94	0.2%	192	0.3%	109	0.3%
Income before taxes	**14,873**	**27.9%**	**17,781**	**32.9%**	**16,045**	**36.8%**
Provision for taxes	3,868	7.3%	4,839	8.9%	4,581	10.5%
Net income	**$ 11,005**	**20.6%**	**$ 12,942**	**24.0%**	**$ 11,464**	**26.3%**
Diluted earnings per common share	**$ 2.13**		**$ 2.39**		**$ 2.01**	

Our net revenue for 2012, which included 52 weeks, decreased by $658 million, or 1%, compared to 2011, which included 53 weeks. PC Client Group and Data Center Group platform volume decreased 1% while average selling prices were unchanged. Additionally, lower IMC average selling prices and lower netbook platform volume contributed to the decrease. These decreases were partially offset by our McAfee operating segment, which we acquired in the first quarter of 2011. McAfee contributed $469 million of additional revenue in 2012 compared to 2011.

Our overall gross margin dollars for 2012 decreased by $606 million, or 2%, compared to 2011. The decrease was due in large part to approximately $490 million of excess capacity charges, as well as lower PC Client Group and Data Center Group platform revenue. To a lesser extent, higher PC Client Group and Data Center Group platform unit costs as well as lower netbook and IMC revenue contributed to the decrease. The decrease was partially offset by approximately $645 million of lower start-up costs as we transition from our 22nm process technology to R&D of our next-generation 14nm process technology, as well as $422 million of charges recorded in 2011 to repair and replace materials and systems impacted by a design issue related to our Intel 6 Series Express Chipset family. The decrease was also partially offset by the two additional months of results from our acquisition of McAfee, which occurred on February 28, 2011, contributing approximately $334 million of additional gross margin dollars in 2012 compared to 2011. The amortization of acquisition-related intangibles resulted in a $557 million reduction to our overall gross margin dollars in 2012, compared to $482 million in 2011, primarily due to acquisitions completed in the first quarter of 2011.

Our overall gross margin percentage in 2012 was flat from 2011 as higher excess capacity charges and higher PC Client Group and Data Center Group platform unit costs in 2012 were offset by lower start-up costs and no impact in 2012 for the Intel 6 Series Express Chipset design issue. We derived a substantial majority of our overall gross margin dollars in 2012 and 2011 from the sale of platforms in the PC Client Group and Data Center Group operating segments.

Our net revenue for 2011, which included 53 weeks, increased $10.4 billion, or 24%, compared to 2010, which included 52 weeks. PC Client Group and Data Center Group platform revenue increased $6.3 billion on 8% higher average selling prices and 7% higher unit sales. Additionally, $3.6 billion of the increase in revenue was due to acquisitions completed in the first quarter of 2011 (primarily IMC and McAfee).

Our overall gross margin dollars for 2011 increased $5.3 billion, or 18%, compared to 2010, primarily reflecting higher revenue from our existing business and our acquisitions as discussed previously. The increase was partially offset by approximately $1.0 billion of higher start-up costs compared to 2010. The amortization of acquisition-related intangibles resulted in a $482 million reduction to our overall gross margin dollars in 2011, compared to $65 million in 2010, primarily due to the acquisitions in the first quarter of 2011.

Our overall gross margin percentage decreased to 62.5% in 2011 from 65.3% in 2010. The decrease in gross margin percentage was primarily attributable to the gross margin percentage decrease in the PC Client Group and, to a lesser extent, the gross margin percentage decrease in the other Intel architecture operating segments. We derived a substantial majority of our overall gross margin dollars in 2011 and most of our gross margin dollars in 2010 from the sale of platforms in the PC Client Group and Data Center Group operating segments.

PC Client Group

The revenue and operating income for the PC Client Group for the three years ended December 29, 2012 were as follows:

(In Millions)	2012	2011	2010
Net revenue	**$ 34,274**	$ 35,406	$ 30,327
Operating income	**$ 13,053**	$ 14,793	$ 12,971

Net revenue for the PCCG operating segment decreased by $1.1 billion, or 3%, in 2012 compared to 2011. PCCG revenue was negatively impacted by the growth of tablets as these devices compete with PCs for consumer sales. Platform average selling prices and unit sales decreased 2% and 1%, respectively. The decrease was driven by 6% lower notebook platform average selling prices and 5% lower desktop platform volume. These decreases were partially offset by a 4% increase in desktop platform average selling prices and a 2% increase in notebook platform volume.

Operating income decreased by $1.7 billion, or 12%, in 2012 compared to 2011 driven by $649 million of lower gross margin and $1.1 billion of higher operating expenses. The decrease in gross margin was primarily due to lower platform revenue. Additionally, approximately $455 million of higher excess capacity charges and higher platform unit costs contributed to the decrease. These decreases were partially offset by approximately $785 million of lower start-up costs as we transition from manufacturing start-up costs related to our 22nm process technology to R&D of our next-generation 14nm process technology. Additionally, the first half of 2011 included $422 million of charges recorded to repair and replace materials and systems impacted by a design issue related to our Intel 6 Series Express Chipset family.

Net revenue for the PCCG operating segment increased by $5.1 billion, or 17%, in 2011 compared to 2010. Platform average selling prices and unit sales increased 8% and 7%, respectively. The increase in revenue was due to notebook platform unit sales and notebook platform average selling prices, which both increased 9%. To a lesser extent, an increase in desktop platform average selling prices of 6% and an increase in desktop platform unit sales of 4% also contributed to the increase. In addition to the extra work week in 2011, our client business benefited from rising incomes that increased the affordability of PCs in emerging markets. We also saw an increase in revenue as demand increased in the enterprise and emerging markets for higher performance and more energy-efficient computing.

Operating income increased by $1.8 billion in 2011 compared to 2010 as the gross margin increase of $2.4 billion was partially offset by $584 million of higher operating expenses. The increase in gross margin was primarily due to higher platform revenue partially offset by approximately $960 million of higher start-up costs as we transitioned into production using our 22nm process technology. Higher platform unit costs and inventory write-offs as compared to 2010 also contributed to the offset.

Data Center Group

The revenue and operating income for the Data Center Group for the three years ended December 29, 2012 were as follows:

(In Millions)	2012	2011	2010
Net revenue	**$ 10,741**	$ 10,129	$ 8,693
Operating income	**$ 5,073**	$ 5,100	$ 4,388

Net revenue for the DCG operating segment increased by $612 million, or 6%, in 2012 compared to 2011. The increase in revenue was due to 6% higher platform average selling prices, slightly offset by 1% lower platform volume. Our platform average selling prices benefited from a richer mix of products sold. In 2012, our server business continued to benefit from significant growth in the Internet cloud segment offset by weakness in the enterprise server market segment.

Operating income decreased by $27 million in 2012 compared to 2011 as $360 million of higher gross margin was more than offset by $387 million of higher operating expenses. The increase in gross margin was primarily due to higher platform revenue.

Net revenue for the DCG operating segment increased by $1.4 billion, or 17%, in 2011 compared to 2010. The increase in revenue was due to a 12% increase in platform unit sales. Our server business benefited from growth in the number of devices that compute and connect to the Internet, driving the build-out of the cloud infrastructure. Additionally, platform average selling prices increased 3% due to an increased demand for higher-performance computing.

Operating income increased by $712 million in 2011 compared to 2010 as the gross margin increase of $1.2 billion was partially offset by $487 million of higher operating expenses. The increase in gross margin was primarily due to higher platform revenue.

Other Intel Architecture Operating Segments

The revenue and operating income (loss) for the other Intel architecture operating segments, including the Intelligent Systems Group, Intel Mobile Communications, the Netbook Group, the Tablet Group, the Phone Group, and the Service Provider Group for the three years ended December 29, 2012 were as follows:

(In Millions)	2012	2011	2010
Net revenue	**$ 4,378**	$ 5,005	$ 3,055
Operating income (loss)	**$ (1,377)**	$ (577)	$ 270

Net revenue for the Other IA operating segments decreased by $627 million, or 13%, in 2012 compared to 2011. The decrease was primarily due to lower IMC average selling prices and lower netbook platform volume. To a lesser extent, lower netbook platform average selling prices contributed to the decrease. These decreases were partially offset by higher ISG platform average selling prices.

Operating results for the Other IA operating segments decreased by $800 million from an operating loss of $577 million in 2011 to an operating loss of $1.4 billion in 2012. The decline in operating results was primarily due to lower netbook revenue and higher operating expenses in the Other IA operating segments. Additionally, lower IMC revenue was largely offset by lower IMC unit cost.

Net revenue for the Other IA operating segments increased by $2.0 billion, or 64%, in 2011 compared to 2010. The increase was primarily due to IMC revenue, an operating segment formed from the acquisition of the WLS business of Infineon in the first quarter of 2011. To a lesser extent, higher ISG platform unit sales also contributed to the increase. These increases were partially offset by lower netbook platform unit sales.

Operating results for the Other IA operating segments decreased by $847 million from an operating income of $270 million in 2010 to an operating loss of $577 million in 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 (loss) for the SSG operating segments, including McAfee, the Wind River Software Group, and the Software and Services Group, for the three years ended December 29, 2012 were as follows:

(In Millions)	2012	2011	2010
Net revenue	$ 2,381	$ 1,870	$ 264
Operating income (loss)	$ (11)	$ (32)	$ (175)

Net revenue for the SSG operating segments increased by $511 million in 2012 compared to 2011. The increase was primarily due to two months of incremental revenue from McAfee of $469 million. McAfee was acquired on February 28, 2011.

The operating loss for the SSG operating segments decreased by $21 million in 2012 compared to 2011. The decrease in operating loss was primarily due to higher McAfee revenue, partially offset by higher McAfee operating expenses.

Net revenue for the SSG operating segments increased by $1.6 billion in 2011 compared to 2010. The increase was due to revenue from McAfee, which was acquired on February 28, 2011. Due to the revaluation of McAfee's historic deferred revenue to fair value at the time of acquisition, we excluded $204 million of revenue that would have been reported in 2011 if McAfee's deferred revenue had not been written down due to the acquisition.

The operating loss for the SSG operating segments decreased by $143 million in 2011 compared to 2010. The decrease was due to higher revenue, partially offset by higher operating expenses across each of the SSG operating segments. Due to the revaluation of McAfee's historic deferred revenue to fair value at the time of acquisition, we excluded revenue and associated costs that would have increased operating results by $190 million in 2011.

Operating Expenses

Operating expenses for the three years ended December 29, 2012 were as follows:

(Dollars In Millions)	2012	2011	2010
Research and development	$ 10,148	$ 8,350	$ 6,576
Marketing, general and administrative	$ 8,057	$ 7,670	$ 6,309
R&D and MG&A as percentage of net revenue	34%	30%	30%
Amortization of acquisition-related intangibles	$ 308	$ 260	$ 18

Research and Development. R&D spending increased by $1.8 billion, or 22%, in 2012 compared to 2011, and increased by $1.8 billion, or 27%, in 2011 compared to 2010. The increase in 2012 compared to 2011 was driven by increased investments in our products for smartphones, tablets, Ultrabook systems, and data centers. Additionally, R&D spending increased due to higher process development costs for our next-generation 14nm process technology, higher compensation expenses mainly due to annual salary increases, the full first quarter expenses of IMC and McAfee in 2012 (both acquired in the first quarter of 2011), and higher costs related to the development of 450mm wafer technology. The increase in 2011 compared to 2010 was primarily due to the expenses of McAfee and IMC, and to higher compensation expenses based on an increase in the number of employees. In addition, lower overall process development costs due to the transition to manufacturing start-up costs related to our 22nm process technology were mostly offset by higher process development costs due to R&D of our next-generation 14nm process technology.

Marketing, General and Administrative . Marketing, general and administrative expenses increased by $387 million, or 5%, in 2012 compared to 2011, and increased by $1.4 billion, or 22%, in 2011 compared to 2010. The increase in 2012 compared to 2011 was primarily due to the full first quarter expenses of McAfee in 2012 and higher compensation expenses mainly due to annual salary increases as well as an increase in the number of employees. The increase in 2011 compared to 2010 was primarily due to the expenses of McAfee and IMC, higher compensation expenses based on an increase in the number of employees, and higher advertising expenses (including cooperative advertising expenses).

Amortization of Acquisition-Related Intangibles. The increase in 2012 compared to 2011 of $48 million was primarily due to the full year of amortization of intangibles in 2012 related to the acquisitions of McAfee and the WLS business of Infineon, both completed in the first quarter of 2011. The increase in 2011 compared to 2010 of $242 million was primarily due to the amortization of intangibles related to the acquisitions of McAfee and the WLS business of Infineon in 2011. For further information, see "Note 13: Acquisitions" and "Note 16: Identified Intangible Assets" in Part II, Item 8 of this Form 10-K.

Share-Based Compensation

Share-based compensation totaled $1.1 billion in 2012 ($1.1 billion in 2011 and $917 million in 2010). Share-based compensation was included in cost of sales and operating expenses.

As of December 29, 2012, unrecognized share-based compensation costs and the weighted average periods over which the costs are expected to be recognized were as follows:

(Dollars in Millions)	Unrecognized Share-Based Compensation Costs	Weighted Average Period
Stock options	$ 96	1.0 years
Restricted stock units	$ 1,523	1.3 years

As of December 29, 2012, there was $13 million in unrecognized share-based compensation costs related to the rights to acquire common stock under our stock purchase plan. We expect to recognize those costs over a period of approximately one and a half months.

Gains (Losses) on Equity Investments and Interest and Other

Gains (losses) on equity investments, net and interest and other, net for the three years ended December 29, 2012 were as follows:

(In Millions)	2012	2011	2010
Gains (losses) on equity investments, net	$ 141	$ 112	$ 348
Interest and other, net	$ 94	$ 192	$ 109

Net gains on equity investments were higher in 2012 compared to 2011 due to lower equity method losses and higher gains on third-party merger transactions, partially offset by lower gains on sales of equity investments. We recognized lower net gains on equity investments in 2011 compared to 2010 due to lower gains on sales of equity investments, higher equity method losses, and lower gains on third-party merger transactions.

Net gains on equity investments for 2011 included a gain of $150 million on the sale of shares in VMware, Inc. During 2010, we recognized a gain of $181 million on the initial public offering of SMART Technologies, Inc. and the subsequent partial sale of our shares in the secondary offering. We also recognized a gain of $91 million on the sale of our ownership interest in Numonyx B.V., and a gain of $67 million on the sale of shares in Micron Technology, Inc. in 2010. Our share of equity method investee losses recognized in 2011 and 2010 was primarily related to Clearwire Communications, LLC (Clearwire LLC) ($145 million and $116 million, respectively). Our share of equity method investee losses recognized in 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.

Interest and other, net decreased in 2012 compared to 2011, primarily due to a $164 million gain recognized upon formation of the Intel-GE Care Innovations, LLC (Care Innovations) joint venture during the first quarter of 2011 and higher interest expense in 2012. This decrease was partially offset by proceeds received from an insurance claim in the second quarter of 2012 related to the floods in Thailand.

Interest and other, net increased in 2011 compared to 2010. The $164 million gain recognized upon formation of Care Innovations during 2011 was partially offset by the recognition of $41 million of interest expense in 2011 compared to zero in 2010 and lower interest income in 2011 compared to 2010 as a result of lower average investment balances. We recognized interest expense during 2011 as the amount of interest incurred began to exceed the amount we were able to capitalize upon the issuance of $5.0 billion aggregate principal of senior unsecured notes in the third quarter of 2011.

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Provision for Taxes

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

(Dollars in Millions)	2012	2011	2010
Income before taxes	$ 14,873	$ 17,781	$ 16,045
Provision for taxes	$ 3,868	$ 4,839	$ 4,581
Effective tax rate	26.0%	27.2%	28.6%

We generated a higher percentage of our profits from lower tax jurisdictions in 2012 compared to 2011, positively impacting our effective tax rate for 2012. This impact was partially offset by a U.S. research and development tax credit that was not reinstated in 2012.

The U.S. research and development tax credit was reenacted in January 2013 retroactive to the beginning of 2012. The full year 2012 impact of the U.S. federal research and development tax credit will be recognized in the first quarter 2013 financial statements and is expected to have a significant positive impact on the first quarter of 2013 effective tax rate.

We generated a higher percentage of our profits from lower tax jurisdictions in 2011 compared to 2010, positively impacting our effective tax rate for 2011.

Liquidity and Capital Resources

(Dollars in Millions)	Dec. 29, 2012	Dec. 31, 2011
Cash and cash equivalents, short-term investments, and marketable debt instruments included in trading assets	$ 18,162	$ 14,837
Loans receivable and other long-term investments	$ 1,472	$ 1,769
Short-term and long-term debt	$ 13,448	$ 7,331
Debt as percentage of stockholders' equity	26.3%	16.0%

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Sources and Uses of Cash

(In Millions)

In summary, our cash flows were as follows:

(In Millions)	2012	2011	2010
Net cash provided by operating activities	$ 18,884	$ 20,963	$ 16,692
Net cash used for investing activities	(14,060)	(10,301)	(10,539)
Net cash used for financing activities	(1,408)	(11,100)	(4,642)
Effect of exchange rate fluctuations on cash and cash equivalents	(3)	5	—
Net increase (decrease) in cash and cash equivalents	**$ 3,413**	**$ (433)**	**$ 1,511**

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

Operating Activities

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

For 2012 compared to 2011, the $2.1 billion decrease in cash provided by operating activities was due to lower net income and changes in our working capital, partially offset by adjustments for non-cash items. The adjustments for non-cash items were higher due primarily to higher depreciation in 2012 compared to 2011, partially offset by increases in non-acquisition-related deferred tax liabilities as of December 31, 2011 compared to December 25, 2010.

Changes in assets and liabilities as of December 29, 2012 compared to December 31, 2011 included higher inventories on the ramp of 3rd generation Intel® Core™ processor family products, partially offset by a significant reduction in older-generation products.

For 2012, our three largest customers accounted for 43% of our net revenue (43% in 2011 and 46% in 2010), with Hewlett-Packard Company accounting for 18% of our net revenue (19% in 2011 and 21% in 2010), Dell accounting for 14% of our net revenue (15% in 2011 and 17% in 2010), and Lenovo accounting for 11% of our net revenue (9% in 2011 and 8% in 2010). These three customers accounted for 33% of our accounts receivable as of December 29, 2012 (36% as of December 31, 2011).

For 2011 compared to 2010, the $4.3 billion increase in cash provided by operating activities was due to adjustments for non-cash items and higher net income. The adjustments for non-cash items were higher for 2011 compared to 2010, primarily due to higher depreciation and amortization of intangibles, as well as increases in non-acquisition-related deferred tax liabilities as of December 31, 2011 compared to December 25, 2010. Income taxes paid, net of refunds, in 2011 compared to 2010 were $1.3 billion lower, largely due to the tax benefit of depreciating 100% of assets placed in service in the U.S. in 2011.

Investing Activities

Investing cash flows consist primarily of capital expenditures; investment purchases, sales, maturities, and disposals; as well as cash used for acquisitions.

The increase in cash used for investing activities in 2012 compared to 2011 was primarily due to net purchases of available-for-sale investments and trading assets in 2012, as compared to net maturities and sales of available-for-sale investments and trading assets in 2011, partially offset by a decrease in cash paid for acquisitions. Net purchases of available-for-sale investments in 2012 included our purchase of $3.2 billion of equity securities in ASML during the third quarter of 2012. Our capital expenditures were $11.0 billion in 2012 ($10.8 billion in 2011 and $5.2 billion in 2010).

Cash used for investing activities decreased slightly in 2011 compared to 2010. A decrease due to net maturities and sales of available-for-sale investments in 2011 as compared to net purchases of available-for-sale investments in 2010 was 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. The significant increase in capital expenditures in 2011 compared to 2010 was due to the expansion of our network of fabrication facilities to include an additional large-scale fabrication facility, as well as bringing our 22nm process technology manufacturing capacity online.

Financing Activities

Financing cash flows consist primarily of repurchases of common stock, payment of dividends to stockholders, issuance and repayment of long-term debt, and proceeds from the sale of shares through employee equity incentive plans.

The decrease in cash used for financing activities in 2012, compared to 2011, was primarily due to fewer repurchases of common stock under our authorized common stock repurchase program and, to a lesser extent, the issuance of a higher amount of long-term debt in 2012 compared to 2011. 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 the open market or negotiated transactions. During 2012, we repurchased $4.8 billion of common stock under our authorized common stock repurchase program compared to $14.1 billion in 2011. As of December 29, 2012, $5.3 billion remained available for repurchase under the existing repurchase authorization limit. We base our level of common stock repurchases on internal cash management decisions, and this level may fluctuate. Proceeds from the sale of shares through employee equity incentive plans totaled $2.1 billion in 2012 compared to $2.0 billion in 2011. Our total dividend payments were $4.4 billion in 2012 compared to $4.1 billion in 2011 as a result of an increase in quarterly cash dividends per common share. We have paid a cash dividend in each of the past 81 quarters. In January 2013, our Board of Directors declared a cash dividend of $0.225 per common share for the first quarter of 2013. The dividend is payable on March 1, 2013 to stockholders of record on February 7, 2013.

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The increase in cash used in financing activities in 2011 compared to 2010 was primarily due to higher repurchases of common stock under our authorized common stock repurchase program, partially offset by the issuance of long-term debt in 2011 and higher proceeds from the sale of shares through employee equity incentive plans.

Liquidity

Cash generated by operations is our primary source of liquidity. We maintain a diverse investment portfolio that we continually analyze based on issuer, industry, and country. As of December 29, 2012, cash and cash equivalents, short-term investments, and marketable debt instruments included in trading assets totaled $18.2 billion ($14.8 billion as of December 31, 2011). In addition to the $18.2 billion, we have $1.5 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 in A/A2 or better rated issuances, and the majority of the issuances 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 2012 were $500 million, although no commercial paper remained outstanding as of December 29, 2012. Our commercial paper was rated A-1+ by Standard & Poor's and P-1 by Moody's as of December 29, 2012. 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 fourth quarter of 2012, we utilized this shelf registration statement and issued $6.2 billion aggregate principal amount of senior unsecured notes. These notes were issued for general corporate purposes and to repurchase shares of our common stock pursuant to our authorized common stock repurchase program. For further information on the terms of the notes, see "Note 19: Borrowings" in Part II, Item 8 of this Form 10-K.

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, such as an obligor's credit risk, that market participants would use when pricing the asset or liability. For further information, see "Fair Value" in "Note 2: Accounting Policies" in Part II, Item 8 of this Form 10-K.

Marketable Debt Instruments

As of December 29, 2012, our assets measured and recorded at fair value on a recurring basis included $15.3 billion of marketable debt instruments. Of these instruments, $5.2 billion was classified as Level 1, $10.0 billion as Level 2, and $126 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. We evaluate security-specific market data when determining whether the market for a debt security is active.

Of the $10.0 billion of marketable debt instruments measured and recorded at fair value on a recurring basis and classified as Level 2, approximately 60% was classified as Level 2 due to the use of a discounted cash flow model, and approximately 40% was classified as such due to the use of non-binding market consensus prices that were corroborated with observable market data.

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 our fair value measurements using non-binding market consensus prices and non-binding broker quotes from a second source.

Loans Receivable and Reverse Repurchase Agreements

As of December 29, 2012, our assets measured and recorded at fair value on a recurring basis included $780 million of loans receivable and $2.8 billion of reverse repurchase agreements. All of these investments 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.

Marketable Equity Securities

As of December 29, 2012, our assets measured and recorded at fair value on a recurring basis included $4.4 billion of marketable equity securities. All 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

The following table summarizes our significant contractual obligations as of December 29, 2012:

	Payments Due by Period				
(In Millions)	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
Operating lease obligations	$ 909	$ 206	$ 315	$ 178	$ 210
Capital purchase obligations[1]	4,618	4,554	64	—	—
Other purchase obligations and commitments[2]	1,958	1,140	581	228	9
Long-term debt obligations[3]	22,852	480	860	5,330	16,182
Other long-term liabilities[4, 5]	1,714	627	652	330	105
Total[6]	**$ 32,051**	**$ 7,007**	**$ 2,472**	**$ 6,066**	**$ 16,506**

1 *Capital purchase obligations represent commitments for the construction or purchase of property, plant and equipment. They were not recorded as liabilities on our consolidated balance sheets as of December 29, 2012, as we had not yet received the related goods or taken title to the property.*

2 *Other purchase obligations and commitments include payments due under various types of licenses and agreements to purchase goods or services, as well as payments due under non-contingent funding obligations. Funding obligations include, for example, agreements to fund various projects with other companies.*

3 *Amounts represent principal and interest cash payments over the life of the debt obligations, including anticipated interest payments that are not recorded on our consolidated balance sheets. Any future settlement of convertible debt would impact our cash payments.*

4 *We are unable to reliably estimate the timing of future payments related to uncertain tax positions; therefore, $177 million of long-term income taxes payable has been excluded from the preceding table. However, long-term income taxes payable, recorded on our consolidated balance sheets, included these uncertain tax positions, reduced by the associated federal deduction for state taxes and U.S. tax credits arising from non-U.S. income taxes.*

5 *Amounts represent future cash payments to satisfy other long-term liabilities recorded on our consolidated balance sheets, including the short-term portion of these long-term liabilities. Expected required contributions to our U.S. and non-U.S. pension plans and other postretirement benefit plans of $63 million to be made during 2013 are also included; however, funding projections beyond 2013 are not practicable to estimate.*

6 *Total excludes contractual obligations already recorded on our consolidated balance sheets as current liabilities except for the short-term portions of long-term debt obligations and other long-term liabilities.*

Contractual obligations for purchases of goods or services, included in other purchase obligations and commitments in the preceding table, include agreements that are enforceable and legally binding on Intel and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. For obligations with cancellation provisions, the amounts included in the preceding table were limited to the non-cancelable portion of the agreement terms or the minimum cancellation fee.

We have entered into certain agreements for the purchase of raw materials that specify minimum prices and quantities based on a percentage of the total available market or based on a percentage of our future purchasing requirements. Due to the uncertainty of the future market and our future purchasing requirements, as well as the non-binding nature of these agreements, obligations under these agreements are not included in the preceding table. Our purchase orders for other products are based on our current manufacturing needs and are fulfilled by our vendors within short time horizons. In addition, some of our purchase orders represent authorizations to purchase rather than binding agreements.

Contractual obligations that are contingent upon the achievement of certain milestones are not included in the preceding table. These obligations include milestone-based co-marketing agreements, contingent funding/payment obligations, and milestone-based equity investment funding. These arrangements are not considered contractual obligations until the milestone is met by the third party. During 2012, we entered into a series of agreements with ASML intended to accelerate the development of 450mm wafer technology and EUV lithography. Intel agreed to provide R&D funding totaling €829 million (approximately $1.1 billion as of December 29, 2012) over five years and committed to advance purchase orders for a specified number of tools from ASML. Our obligation is contingent upon ASML achieving certain milestones. As a result, we have not included this obligation in the preceding table.

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. The obligation to pay the relevant taxing authority is not included in the preceding table, as the amount is contingent upon continued employment. In addition, the amount of the obligation is unknown, as it is based in part on the market price of our common stock when the awards vest.

Contractual obligations with regard to our investment in IMFT are not included in the preceding table. We are currently committed to purchasing 49% of IMFT's production output and production-related services. We also have several agreements with Micron related to the supply of NAND flash memory products, IP, and R&D funding related to non-volatile memory manufacturing. The obligation to purchase our proportion of IMFT's inventory was approximately $28 million as of December 29, 2012. For further information, see "Note 10: Equity Method and Cost Method Investments" in Part II, Item 8 of this Form 10-K.

The expected timing of payments of the obligations in the table above is estimated based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations.

Off-Balance-Sheet Arrangements

As of December 29, 2012, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are directly and indirectly affected by changes in non-U.S. currency exchange rates, interest rates, and equity prices. All of the potential changes that follow are based on sensitivity analyses performed on our financial positions as of December 29, 2012 and December 31, 2011. Actual results may differ materially.

Currency Exchange Rates

In general, we economically hedge currency risks of non-U.S.-dollar-denominated investments in debt instruments and loans receivable with currency forward contracts or currency interest rate swaps. Gains and losses on these non-U.S.-currency investments would generally be offset by corresponding losses and gains on the related hedging instruments, resulting in an insignificant net exposure to loss.

Substantially all of our revenue is transacted in U.S. dollars. However, a significant amount of our operating expenditures and capital purchases is incurred in or exposed to other currencies, primarily the euro, the Japanese yen, 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 the functional currency equivalent of future cash flows caused by changes in exchange rates. We generally utilize currency forward contracts in these hedging programs. Our hedging programs reduce, but do not always eliminate, the impact of currency exchange rate movements. For further information, see “Risk Factors” in Part I, Item 1A of this Form 10-K. We considered the historical trends in currency exchange rates and determined that it was reasonably possible that a weighted average adverse change of 20% in currency exchange rates could be experienced in the near term. Such an adverse change, after taking into account balance sheet hedges only and offsetting recorded monetary asset and liability positions, would have resulted in an adverse impact on income before taxes of less than $80 million as of December 29, 2012 (less than $40 million as of December 31, 2011).

Interest Rates

We generally hedge interest rate risks of fixed-rate debt instruments with 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 an insignificant 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. The primary objective of our investments in debt instruments is to preserve principal while maximizing yields, which generally track 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 $1.5 billion as of December 29, 2012 (an increase of approximately $900 million as of December 31, 2011). The significant increase from December 31, 2011 was primarily driven by the inclusion of $6.2 billion of senior unsecured notes issued in the fourth quarter of 2012. A hypothetical decrease in benchmark 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 approximately $10 million as of December 29, 2012 (an increase of approximately $20 million as of December 31, 2011). The fluctuations in fair value of our investment portfolio and indebtedness 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 the fair value of 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 4: Fair Value” in Part II, Item 8 of this Form 10-K.

Equity Prices

Our investments include marketable equity securities and equity derivative instruments such as warrants and options. 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. Additionally, for our 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 losses and gains on the related liabilities, resulting in an insignificant net exposure to loss.