Table of Contents

## 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 2011 to 2010 and comparing 2010 to 2009. 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.
- *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 31, 2011, including expected payment schedule.

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 "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 23, 2012.

### Overview

Our results of operations were as follows:

| | Three Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| (Dollars in Millions) | Dec. 31, 2011 | Oct. 1, 2011 | Dec. 31, 2011 | Dec. 25, 2010 |
| Net revenue | $ 13,887 | $ 14,233 | $ 53,999 | $ 43,623 |
| Gross margin | $ 8,952 | $ 9,018 | $ 33,757 | $ 28,491 |
| Gross margin percentage | 64.5% | 63.4% | 62.5% | 65.3% |
| Operating income | $ 4,599 | $ 4,785 | $ 17,477 | $ 15,588 |
| Net income | $ 3,360 | $ 3,468 | $ 12,942 | $ 11,464 |
| Diluted earnings per common share | $ 0.64 | $ 0.65 | $ 2.39 | $ 2.01 |

2011 was our most profitable year, with record revenue, operating income, net income, and earnings per share. Revenue of $54.0 billion was up $10.4 billion, or 24% from a year ago, and was our second year in a row with revenue growing over 20%. We saw growth in 2011 in both our client business and our data center business. Our client business is benefiting as rising incomes increase the affordability of PCs in emerging markets. Our data center business is benefiting as the increasing number of devices that compute and connect to the Internet drives the build-out of the cloud infrastructure. Additionally, we completed the acquisitions of McAfee and the WLS business of Infineon in 2011, which combined contributed approximately $3.6 billion to our revenue growth. Our 2011 gross margin percentage was down 2.8 percentage points compared to 2010. The decline was primarily driven by the increase in start-up costs associated with 22nm factories as well as the impact of acquisitions. These declines were partially offset by growth in our platform business.

Our fourth quarter revenue of $13.9 billion was down $346 million from the third quarter of 2011. The floods in Thailand and the resulting hard disk drive supply shortage negatively impacted our fourth quarter revenue as our customers reduced inventories across the supply chain. We expect the shortage of hard disk drives to continue to impact our business in the first quarter of 2012. Compared to the third quarter of 2011, our fourth quarter gross margin was up 1.1 percentage points as a result of lower manufacturing costs (platform unit costs and other cost of sales), partially offset by higher platform write-offs.

Our strong financial performance during 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. For 2011, we generated a record $21.0 billion of cash from operations and ended the quarter with an investment portfolio of $14.8 billion, consisting of cash and cash equivalents, short-term investments, and marketable debt instruments included in trading assets. During 2011, we issued $5.0 billion of senior unsecured notes, primarily to repurchase shares of our common stock; repurchased $14.1 billion of common stock through our common stock repurchase program; purchased $10.8 billion in capital assets; spent $8.7 billion on acquisitions; and returned $4.1 billion to stockholders through dividends. In January 2012, the Board of Directors declared a cash dividend of $0.21 per common share for the first quarter of 2012.

Looking ahead to 2012, we believe that the emerging market, the data center, and enterprise trends that drove our revenue in 2011 will continue to drive our business in 2012. In addition, we have a strong product and technology pipeline coming to market with the ramp of Ultrabook systems with the launch of our 22nm process technology microprocessors (code named "Ivy Bridge"), the launch of our new server platform (code named "Romley"), security, and Intel processor-powered smartphones and tablets. For 2012, we are also forecasting a gross margin increase of 1.5 percentage points, to 64%. We expect lower start-up costs, no impact from the Intel® 6 Series Express Chipset design issue, and higher platform revenue. These increases to gross margin are expected to be partially offset by higher platform unit costs as we ramp Ivy Bridge. We are forecasting an increase in our investment in R&D of approximately $1.8 billion as we make incremental investment in technologies for Ultrabook systems, data centers, smartphones, and tablets. Additionally, we are making investments in core capabilities such as security, SoCs, and extending our process technology leadership. We are forecasting an increase in capital spending to $12.5 billion, which is $1.7 billion higher than in 2011, as we build the world's first high-volume manufacturing factories for 14nm process technology. We believe that this continued investment will allow our process technology and manufacturing advantage to continue to extend in 2012, enabling a leadership product portfolio.

Our Business Outlook for 2012 includes our current expectations for revenue, gross margin percentage, spending, and capital expenditures. We will keep our most current Business Outlook publicly available on our Investor Relations web site at *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 16, 2012 unless updated earlier. From the close of business on March 16, 2012 until our quarterly earnings release is published, presently scheduled for April 17, 2012, 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 19, 2012, 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.

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

Table of Contents



### *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 December 31, 2011 ($2.6 billion as of December 25, 2010). Approximately half of this balance as of December 31, 2011 was concentrated in companies in the flash memory market segment. Our flash memory market segment investments include our investment in IMFT and IMFS of $1.3 billion ($1.5 billion as of December 25, 2010). For additional information, see "Note 11: Equity Method and Cost Method Investments" in Part II, Item 8 of this Form 10-K.

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 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 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 revenue, 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 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 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 $63 million in 2011. Over the past 12 quarters, including the fourth quarter of 2011, impairments of non-marketable equity investments ranged from $8 million to $79 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 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 fourth quarter of 2011, impairments and accelerated depreciation of property, plant and equipment 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. 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 30: 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 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 goodwill impairment test in order to determine the implied fair value of the reporting unit's goodwill. If, during this second step, we determine that 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 goodwill impairment test uses a weighting of both the income and market methods 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 Intel's 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, 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. 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.

During the fourth quarter of each of the prior three fiscal years, we completed our annual impairment assessments, and impairment tests when necessary, 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 review indefinite-lived intangible assets for impairment quarterly and whenever events or changes in circumstances indicate that the carrying value 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 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 recognized impairment charges of approximately $10 million in 2011 and no impairment charges in the prior two fiscal years.

***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 there be a change 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 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 December 31, 2011, we had total work-in-process inventory of $1.7 billion and total finished goods inventory of $1.8 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.

Table of Contents



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. Disclosure of a loss contingency is required if 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. 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 and recent accounting standards, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see "Note 3: Accounting Changes" and "Note 4: Recent Accounting Standards" in Part II, Item 8 of this Form 10-K.

## 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:

| | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| (Dollars in Millions, Except Per Share Amounts) | Dollars | % of Net Revenue | Dollars | % of Net Revenue | Dollars | % of Net Revenue |
| **Net revenue** | **$ 53,999** | **100.0%** | **$ 43,623** | **100.0%** | **$ 35,127** | **100.0%** |
| Cost of sales | 20,242 | 37.5% | 15,132 | 34.7% | 15,566 | 44.3% |
| **Gross margin** | **33,757** | **62.5%** | **28,491** | **65.3%** | **19,561** | **55.7%** |
| Research and development | 8,350 | 15.4% | 6,576 | 15.1% | 5,653 | 16.1% |
| Marketing, general and administrative | 7,670 | 14.2% | 6,309 | 14.5% | 7,931 | 22.6% |
| Restructuring and asset impairment charges | — | —% | — | —% | 231 | 0.6% |
| Amortization of acquisition-related intangibles | 260 | 0.5% | 18 | —% | 35 | 0.1% |
| **Operating income** | **17,477** | **32.4%** | **15,588** | **35.7%** | **5,711** | **16.3%** |
| Gains (losses) on equity investments, net | 112 | 0.2% | 348 | 0.8% | (170) | (0.5)% |
| Interest and other, net | 192 | 0.3% | 109 | 0.3% | 163 | 0.4% |
| **Income before taxes** | **17,781** | **32.9%** | **16,045** | **36.8%** | **5,704** | **16.2%** |
| Provision for taxes | 4,839 | 8.9% | 4,581 | 10.5% | 1,335 | 3.8% |
| **Net income** | **$ 12,942** | **24.0%** | **$ 11,464** | **26.3%** | **$ 4,369** | **12.4%** |
| **Diluted earnings per common share** | **$ 2.39** | | **$ 2.01** | | **$ 0.77** | |

### Geographic Breakdown of Revenue

Our net revenue for 2011, which included 53 weeks, increased $10.4 billion, or 24%, compared to 2010, which included 52 weeks. The increase was due to significantly higher platform (microprocessor and chipset) average selling prices and, to a lesser extent, slightly higher platform unit sales. Revenue from Intel Mobile Communications (formerly the WLS business of Infineon) and McAfee contributed $3.6 billion to 2011 revenue. Revenue in the Americas, Europe, Asia-Pacific, and Japan regions increased by 31%, 24%, 23%, and 13%, respectively, compared to 2010.

Our overall gross margin dollars for 2011 increased $5.3 billion, or 18%, compared to 2010. The increase was primarily due to significantly higher revenue from our existing business as well as our acquired business. 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 of McAfee and the WLS business of Infineon.

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 overall gross margin dollars in 2010, from the sale of platforms in the PC Client Group and Data Center Group operating segments.

Our net revenue for 2010 increased $8.5 billion, or 24%, compared to 2009. The increase was due to significantly higher platform unit sales and, to a lesser extent, higher platform average selling prices. Revenue in the Japan, Asia-Pacific, Americas, and Europe regions increased by 31%, 29%, 21%, and 6%, respectively, compared to 2009.

Our overall gross margin dollars for 2010 increased $8.9 billion, or 46%, compared to 2009. The increase was primarily due to significantly higher revenue. To a lesser extent, excess capacity charges recorded in 2009 of $1.1 billion and lower platform unit costs contributed to the increase in gross margin dollars for 2010 compared to 2009. These increases were partially offset by charges recorded in the fourth quarter of 2010 to repair and replace materials and systems impacted by a design issue related to our Intel® 6 Series Express Chipset family. For further information, see "Note 20: Chipset Design Issue" in Part II, Item 8 of this Form 10-K.

Our overall gross margin percentage increased to 65.3% in 2010 from 55.7% in 2009. The increase in gross margin percentage was primarily attributable to the gross margin percentage increase in the PC Client Group operating segment and, to a lesser extent, gross margin percentage increases in the Data Center Group, the other Intel architecture operating segments, and the Non-Volatile Memory Solutions Group. We derived most of our overall gross margin dollars in 2010 and 2009 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 (PCCG) for the three years ended December 31, 2011 were as follows:

| (In Millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net revenue | $ 35,406 | $ 30,327 | $ 24,894 |
| Operating income | $ 14,793 | $ 12,971 | $ 7,441 |

Net revenue for the PCCG operating segment increased by $5.1 billion, or 17%, in 2011 compared to 2010. Platforms within PCCG include those designed for the notebook and desktop computing market segments. The increase in revenue was due to higher notebook platform unit sales and higher notebook platform average selling prices. To a lesser extent, higher desktop platform average selling prices and slightly higher desktop platform unit sales also contributed to the increase.

Operating income increased by $1.8 billion in 2011 compared to 2010. The increase in operating income was primarily due to significantly higher revenue. The increase was partially offset by approximately $960 million of higher start-up costs. Higher operating expenses, platform unit costs, and inventory write-offs compared to 2010 also contributed to the offset.

For 2010, net revenue for the PCCG operating segment increased by $5.4 billion, or 22%, in 2010 compared to 2009. Significantly higher notebook platform unit sales were the primary driver for the increase in revenue. To a lesser extent, higher desktop platform unit sales and slightly higher notebook platform average selling prices also contributed to the increase.

Operating income increased by $5.5 billion in 2010 compared to 2009. The increase in operating income was primarily due to significantly higher revenue. During 2009, PCCG recognized approximately $1.0 billion of excess capacity charges. Additionally, lower platform unit costs in 2010 contributed to the increase in operating income. These impacts were partially offset by charges recorded in the fourth quarter of 2010 to repair and replace materials and systems impacted by a design issue related to our Intel® 6 Series Express Chipset family. Additionally, operating expenses in 2010 were higher compared to 2009.

### *Data Center Group*

The revenue and operating income for the Data Center Group (DCG) for the three years ended December 31, 2011 were as follows:

| (In Millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net revenue | $ 10,129 | $ 8,693 | $ 6,450 |
| Operating income | $ 5,100 | $ 4,388 | $ 2,289 |

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 significantly higher server platform unit sales. To a lesser extent, slightly higher server platform average selling prices also contributed to the increase.

Operating income increased by $712 million in 2011 compared to 2010. The increase in operating income was primarily due to significantly higher revenue, partially offset by higher operating expenses compared to 2010.

For 2010, net revenue for the DCG operating segment increased by $2.2 billion, or 35%, in 2010 compared to 2009. The increase in revenue was primarily due to significantly higher server platform unit sales. To a lesser extent, higher server platform average selling prices also contributed to the increase.

Operating income increased by $2.1 billion in 2010 compared to 2009. The increase in operating income was due to significantly higher revenue and, to a lesser extent, lower platform unit costs.

### *Other Intel Architecture Operating Segments*

The revenue and operating income (loss) 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), and the Ultra-Mobility Group (UMG), for the three years ended December 31, 2011 were as follows:

| (In Millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net revenue | $ 5,005 | $ 3,055 | $ 2,683 |
| Operating income (loss) | $ (577) | $ 270 | $ (45) |

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, significantly higher embedded platform unit sales within ISG also contributed to the increase. These increases were partially offset by significantly lower netbook platform unit sales within NTG.

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.

For 2010, net revenue for the Other IA operating segments increased by $372 million, or 14%, in 2010 compared to 2009. The increase was due to significantly higher embedded platform unit sales within ISG.

Operating results for the Other IA operating segments increased by $315 million, from an operating loss of $45 million in 2009 to an operating income of $270 million in 2010. The increase in operating results was due to higher revenue and lower netbook platform unit costs within NTG. To a lesser extent, lower embedded platform unit costs within ISG also contributed to the increase. These increases were partially offset by higher operating expenses in NTG and ISG.

Table of Contents



### *Software and Services Operating Segments*

The revenue and operating income (loss) for the software and services operating segments, including McAfee, the Wind River Software Group, and the Software and Services Group, for the three years ended December 31, 2011 were as follows:

| (In Millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net revenue | $ 1,870 | $ 264 | $ 115 |
| Operating income (loss) | $ (32) | $ (175) | $ (100) |

Net revenue for the software and services operating segments increased by $1.6 billion in 2011 compared to 2010. The increase was due to revenue from McAfee, which was acquired during the first quarter of 2011. Due to the revaluation of McAfee's historic deferred revenue to fair value, 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 software and services operating segments decreased by $143 million in 2011 compared to 2010. The decrease was due to higher revenue, partially offset by higher operating expense across each of the software and services 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.

For 2010, net revenue for the software and services operating segments increased by $149 million in 2010 compared to 2009. The increase was primarily due to significantly higher revenue from the Wind River Software Group. We acquired Wind River Systems, Inc. during the third quarter of 2009.

The operating loss for the software and services operating segments increased by $75 million in 2010 compared to 2009. The increase in operating losses was due to higher operating expenses, partially offset by higher revenue within the Wind River Software Group.

### *Operating Expenses*

Operating expenses for the three years ended December 31, 2011 were as follows:

| (In Millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Research and development | $ 8,350 | $ 6,576 | $ 5,653 |
| Marketing, general and administrative | $ 7,670 | $ 6,309 | $ 7,931 |
| Restructuring and asset impairment charges | $ — | $ — | $ 231 |
| Amortization of acquisition-related intangibles | $ 260 | $ 18 | $ 35 |

*Research and Development.* R&D spending increased by $1.8 billion, or 27%, in 2011 compared to 2010, and increased by $923 million, or 16%, in 2010 compared to 2009. The increase in 2011 compared to 2010 was primarily due to the expenses of McAfee and IMC, and higher compensation expenses based on an increase in 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. The increase in 2010 compared to 2009 was primarily due to higher profit-dependent compensation, an increase in employees, and higher process development costs as we transitioned from manufacturing start-up costs related to our 32nm process technology to R&D of our 22nm process technology.

*Marketing, General and Administrative*. Marketing, general and administrative expenses increased $1.4 billion, or 22%, in 2011 compared to 2010, and decreased $1.6 billion, or 20%, in 2010 compared to 2009. 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 employees, and higher advertising expenses (including cooperative advertising expenses). The decrease in 2010 compared to 2009 was due to the 2009 charge of $1.447 billion incurred as a result of the fine imposed by the European Commission (EC) and the $1.25 billion payment to AMD in 2009 as part of a settlement agreement. These decreases were partially offset by higher advertising expenses (including cooperative advertising expenses), higher profit-dependent compensation, and, to a lesser extent, expenses related to our Wind River Software Group operating segment and an expense of $100 million recognized during the fourth quarter of 2010 due to a patent cross-license agreement that we entered into with NVIDIA in January 2011 (see "Note 17: Identified Intangible Assets" in Part II, Item 8 of this Form 10-K).

R&D, combined with marketing, general and administrative expenses, were 30% of net revenue in 2011 and 2010, and 39% of net revenue in 2009.

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

*Restructuring and Asset Impairment Charges*. The following table summarizes restructuring and asset impairment charges by plan for the three years ended December 31, 2011:

| (In Millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| 2009 restructuring program | $ — | $ — | $ 215 |
| 2006 efficiency program | — | — | 16 |
| **Total restructuring and asset impairment charges** | **$ —** | **$ —** | **$ 231** |

The 2009 restructuring included closing two assembly and test facilities in Malaysia, one facility in the Philippines, and one facility in China; stopping production at a 200mm wafer fabrication facility in Oregon; and ending production at our 200mm wafer fabrication facility in California. The 2006 efficiency program was designed to improve operational efficiency and financial results. Both programs are complete.

*Amortization of Acquisition-Related Intangibles.* The increase of $242 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 14: Acquisitions" and "Note 17: Identified Intangible Assets" in Part II, Item 8 of this Form 10-K.

### *Share-Based Compensation*

Share-based compensation totaled $1.1 billion in 2011 ($917 million in 2010 and $889 million in 2009). Share-based compensation was included in cost of sales and operating expenses.

As of December 31, 2011, 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 | $ 161 | 1.0 years |
| Restricted stock units | $ 1,275 | 1.2 years |

As of December 31, 2011, there was $13 million in unrecognized share-based compensation costs related to rights to acquire common stock under our stock purchase plan, and 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 31, 2011 were as follows:

| (In Millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Gains (losses) on equity investments, net | $ 112 | $ 348 | $ (170) |
| Interest and other, net | $ 192 | $ 109 | $ 163 |

Net gains on equity investments were lower in 2011 compared to 2010. We recognized lower gains on sales, higher equity method losses, and lower gains on third-party merger transactions in 2011 compared to 2010. We recognized a net gain on equity investments in 2010 compared to a net loss in 2009. In 2010, we recognized higher gains on sales, higher gains on third-party merger transactions, lower impairment charges, and lower equity method losses compared to 2009.

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 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 in 2010.

Net gains (losses) on equity investments also included our proportionate share of the income or loss from Clearwire Communications, LLC (Clearwire LLC) ($145 million loss in 2011, $116 million loss in 2010, and $27 million loss in 2009) and Numonyx ($42 million gain in 2010 and $31 million loss in 2009). The equity method 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. For further information, see "Note 11: Equity Method and Cost Method Investments" in Part II, Item 8 of this Form 10-K.

Table of Contents



Interest and other, net increased in 2011 compared to 2010, primarily due to a $164 million gain recognized upon formation of the Intel-GE Care Innovations, LLC joint venture during 2011. For further information, see "Note 11: Equity Method and Cost Method Investments," in Part II, Item 8 of this Form 10-K. The gain 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 in 2011 due to the issuance of $5.0 billion aggregate principal of senior unsecured notes in the third quarter of 2011.

Interest and other, net was lower in 2010 compared to 2009 on lower interest income. Interest income was lower as a result of lower average interest rates, partially offset by higher average investment balances. The average interest rate earned during 2010 decreased by approximately 0.5 percentage points compared to 2009. In addition, lower fair value gains on our trading assets (zero in 2010 and $70 million in 2009) were partially offset by lower exchange rate losses (zero in 2010 and $40 million in 2009). Exchange rate losses in 2009 were due to euro exposure related to our euro-denominated liability for the EC fine of $1.447 billion in 2009. For further information on the EC fine, see "Note 29: Contingencies" in Part II, Item 8 of this Form 10-K.

### *Provision for Taxes*

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

| (Dollars in Millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Income before taxes | $ 17,781 | $ 16,045 | $ 5,704 |
| Provision for taxes | $ 4,839 | $ 4,581 | $ 1,335 |
| Effective tax rate | 27.2% | 28.6% | 23.4% |

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.

We generated a higher percentage of our profits from higher tax jurisdictions in 2010 compared to 2009, negatively impacting our effective tax rate for 2010. The effective tax rate for 2009 was positively impacted by the reversal of previously accrued taxes of $366 million on settlements, effective settlements, and related remeasurements of various uncertain tax positions. These impacts were partially offset by the recognition of the EC fine of $1.447 billion in 2009, which was not tax deductible and therefore significantly increased our effective tax rate for 2009. For further information on the EC fine, see "Note 29: Contingencies" in Part II, Item 8 of this Form 10-K.

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

### Liquidity and Capital Resources

| (Dollars in Millions) | Dec. 31, 2011 | Dec. 25, 2010 |
|---|---|---|
| Cash and cash equivalents, short-term investments, and marketable debt instruments included in trading assets | $ 14,837 | $ 21,497 |
| Loans receivable and other long-term investments | $ 1,769 | $ 3,876 |
| Short-term and long-term debt | $ 7,331 | $ 2,115 |
| Debt as % of stockholders' equity | 16.0% | 4.3% |

### Sources and Uses of Cash

(In Millions)

In summary, our cash flows were as follows:

| (In Millions) | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net cash provided by operating activities | $ 20,963 | $ 16,692 | $ 11,170 |
| Net cash used for investing activities | (10,301) | (10,539) | (7,965) |
| Net cash used for financing activities | (11,100) | (4,642) | (2,568) |
| Effect of exchange rate fluctuations on cash and cash equivalents | 5 | — | — |
| **Net increase (decrease) in cash and cash equivalents** | **$ (433)** | **$ 1,511** | **$ 637** |

### *Operating Activities*

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

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 United States in 2011.

Changes in assets and liabilities as of December 31, 2011 compared to December 25, 2010 included the following:

- Income taxes payable increased and income taxes receivable decreased due to timing of payments.
- Accounts payable increased due to business growth as well as an increase in capital spending.
- Accounts receivable increased due to higher revenue in the fourth quarter of 2011.

For 2011, our two largest customers accounted for 34% of our net revenue (38% in 2010 and 2009), with one of these customers accounting for 19% of our net revenue (21% in 2010 and 2009), and another customer accounting for 15% of our net revenue (17% in 2010 and 2009). These two largest customers accounted for 32% of our accounts receivable as of December 31, 2011 (44% as of December 25, 2010).

For 2010 compared to 2009, the $5.5 billion increase in cash provided by operating activities was due to higher net income, partially offset by adjustments for non-cash items. Income taxes paid, net of refunds, in 2010 compared to 2009 were $3.7 billion higher, primarily due to higher income before taxes in 2010.

### *Investing Activities*

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

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 as we build and equip our 22nm process technology manufacturing capacity. Our capital expenditures were $10.8 billion in 2011 ($5.2 billion in 2010 and $4.5 billion in 2009) due to expanding our network of fabrication facilities to include an additional large-scale fabrication facility as well as bringing our 22nm process technology manufacturing capacity online in 2011.

The increase in cash used for investing activities in 2010 compared to 2009 was primarily due to an increase in net purchases of available-for-sale investments and, to a lesser extent, higher capital expenditures. These increases were partially offset by a decrease in net purchases of trading assets and lower cash paid for acquisitions.

### *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 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. 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 $20 billion of increases in the authorization limit approved by our Board of Directors in 2011. During 2011, we repurchased $14.1 billion of common stock under our authorized common stock repurchase program compared to $1.5 billion in 2010. As of December 31, 2011, $10.1 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 $2.0 billion in 2011 compared to $587 million in 2010. Our total dividend payments were $4.1 billion in 2011 compared to $3.5 billion in 2010 as a result of increases in quarterly cash dividends per common share. We have paid a cash dividend in each of the past 77 quarters. In January 2012, our Board of Directors declared a cash dividend of $0.21 per common share for the first quarter of 2012. The dividend is payable on March 1, 2012 to stockholders of record on February 7, 2012.

The increase in cash used in financing activities in 2010 compared to 2009 was due to the issuance of long-term debt in 2009.

### *Liquidity*

Cash generated by operations is our primary source of liquidity. We maintain a diverse portfolio that we continuously analyze based on issuer, industry, and country. As of December 31, 2011, cash and cash equivalents, short-term investments, and marketable debt instruments included in trading assets totaled $14.8 billion ($21.5 billion as of December 25, 2010). In addition to the $14.8 billion, we have $1.8 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. As certain countries in Europe are experiencing economic uncertainty, we continue to monitor the credit quality of our European sovereign and non-sovereign debt investments. The credit quality of our investment portfolio within the European region remains high, with substantially all of our sovereign debt investments with AA-/Aa3 or better rated issuers, and most of the non-sovereign debt issuers rated A/A2 or better. As of December 31, 2011, our total investments located in Spain, Italy, Ireland, Greece, and Portugal were approximately $50 million, all of which matures in 2012. We have $1 million in unrealized losses related to these investments. These countries have experienced significant economic uncertainty and credit downgrades, so we will only make investments in these countries in the future if their risk profile meets our investment objectives.

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 2011 were $1.4 billion, and $200 million of commercial paper remained outstanding as of December 31, 2011. Our commercial paper was rated A-1+ by Standard & Poor's and P-1 by Moody's as of December 31, 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 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.

Table of Contents



### 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. For further information, see "Fair Value" in "Note 2: Accounting Policies" in Part II, Item 8 of this Form 10-K.

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 December 31, 2011, our assets measured and recorded at fair value on a recurring basis included $15.1 billion of marketable debt instruments. Of these instruments, $6.1 billion was classified as Level 1, $8.7 billion as Level 2, and $218 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 $8.7 billion balance of marketable debt instruments measured and recorded at fair value on a recurring basis and classified as Level 2, approximately 60% of the balance was classified as Level 2 due to the use of a discounted cash flow model and approximately 40% 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*

As of December 31, 2011, our assets measured and recorded at fair value on a recurring basis included $748 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.

#### *Marketable Equity Securities*

As of December 31, 2011, our assets measured and recorded at fair value on a recurring basis included $562 million of marketable equity securities. Most 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.

Table of Contents



## Contractual Obligations

The following table summarizes our significant contractual obligations as of December 31, 2011:

| (In Millions) | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1–3 Years | 3–5 Years | More Than 5 Years |
| Operating lease obligations | $ 707 | $ 183 | $ 254 | $ 134 | $ 136 |
| Capital purchase obligations[1] | 4,652 | 4,605 | 47 | — | — |
| Other purchase obligations and commitments[2] | 1,001 | 633 | 309 | 55 | 4 |
| Long-term debt obligations[3] | 14,822 | 292 | 572 | 2,072 | 11,886 |
| Other long-term liabilities[4, 5] | 1,954 | 609 | 702 | 534 | 109 |
| **Total[6]** | **$ 23,136** | **$ 6,322** | **$ 1,884** | **$ 2,795** | **$ 12,135** |

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 sheet as of December 31, 2011, 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 sheet. 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, $165 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 sheet, 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 sheet, 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 $65 million to be made during 2012 are also included; however, funding projections beyond 2012 are not practical to estimate.*

6 *Total excludes contractual obligations already recorded on our consolidated balance sheet 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 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.

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/IMFS are not included in the preceding table. We are currently committed to purchasing 49% of IMFT's and 22% of IMFS's production output and production-related services. We also have several agreements with Micron related to IP, and R&D funding related to non-volatile memory manufacturing. The obligation to purchase our proportion of IMFT/IMFS's inventory was approximately $125 million as of December 31, 2011. For further information, see "Note 11: Equity Method and Cost Method Investments" in Part II, Item 8 of this Form 10-K.

The expected timing of payments of the obligations 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 31, 2011, 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 use derivative financial instruments primarily to manage currency exchange rate and interest rate risk, and, to a lesser extent, equity market risk. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions as of December 31, 2011 and December 25, 2010. 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 Japanese yen, the euro, the Israeli shekel, and the Chinese yuan. 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. We generally utilize currency forward contracts in these hedging programs. Our hedging programs reduce, but do not always entirely 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 $40 million as of December 31, 2011 (less than $35 million as of December 25, 2010).

### 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. For further information, see “Note 17: Identified Intangible Assets” in Part II, Item 8 of this Form 10-K. 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 $900 million as of December 31, 2011 (an increase of approximately $250 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 approximately $20 million as of December 31, 2011 (an increase of approximately $15 million as of December 25, 2010). 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 5: Fair Value” in Part II, Item 8 of this Form 10-K.

### 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.