## 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*. Analysis of our financial results comparing 2015 to 2014 and comparing 2014 to 2013.
- *Liquidity and Capital Resources*. 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 26, 2015, 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 12, 2016, except for our acquisition of Altera completed on December 28, 2015 as discussed in " Note 8: Acquisitions" in Part II, Item 8 of this Form 10-K.

### Overview

Our results of operations for each period were as follows:

| | Three Months Ended | | | Twelve Months Ended | | |
|---|---|---|---|---|---|---|
| **(Dollars in Millions, Except Per Share Amounts)** | **Dec 26, 2015** | **Dec 27, 2014** | **Change** | **Dec 26, 2015** | **Dec 27, 2014** | **Change** |
| Net revenue | $ 14,914 | $ 14,721 | $ 193 | $ 55,355 | $ 55,870 | $ (515) |
| Gross margin | $ 9,590 | $ 9,621 | $ (31) | $ 34,679 | $ 35,609 | $ (930) |
| Gross margin percentage | 64.3% | 65.4% | (1.1) pts | 62.6% | 63.7% | (1.1) pts |
| Operating income | $ 4,299 | $ 4,453 | $ (154) | $ 14,002 | $ 15,347 | $ (1,345) |
| Net income | $ 3,613 | $ 3,661 | $ (48) | $ 11,420 | $ 11,704 | $ (284) |
| Diluted earnings per share of common stock | $ 0.74 | $ 0.74 | $ — | $ 2.33 | $ 2.31 | $ 0.02 |
| Effective tax rate | 16.0% | 21.4% | (5.4) pts | 19.6% | 25.9% | (6.3) pts |

We achieved record net revenue for Q4 2015 of $14.9 billion, up 1% from Q4 2014. We continue to see our business evolve as we execute on our strategy to leverage the "Virtuous Cycle of Growth" with higher DCG platform, NSG, and IOTG platform revenue. These operating segments made up nearly 40% of our revenue and more than 60% of our operating profit for full year 2015. DCG and IOTG both posted record net revenue for the quarter and was partially offset by lower CCG platform revenue. We continue to believe that the worldwide PC supply chain is healthy, with appropriate levels of inventory.

Gross margin of 64% decreased by approximately one percentage point from Q4 2014, primarily due to higher platform unit costs that resulted in part from a higher mix of 14nm platforms, and lower platform unit sales. These decreases were partially offset by higher platform average selling prices and, to a lesser extent, lower factory start-up costs. Gross margin increased approximately two percentage points compared to the midpoint of the Business Outlook in October 2015, primarily driven by lower platform unit costs, lower factory start-up costs, and higher platform average selling prices.

For full year 2015, our net revenue of $55.4 billion was down 1% from 2014, operating income of $14.0 billion, was down 9% from 2014, and diluted earnings per share of $2.33 were up 1% from 2014. CCG net revenue was down 8% as we continued to see weakness in the macroeconomic environment and, in particular, the PC market as we were coming off of a strong growth rate in the second half of 2014 with the Microsoft Windows* XP refresh. We continue to see growth in DCG, with net revenue up 11% and platform unit sales and average selling prices up 8% and 3%, respectively.

Gross margin of 63% was down approximately one point from 2014, driven by higher platform unit costs on 14nm and lower platform unit sales. These decreases were partially offset by higher platform average selling prices, primarily driven by a higher mix of DCG platforms and higher average selling prices on a richer mix of platforms within the desktop and DCG platforms. To a lesser extent, the decrease in gross margin was also partially offset by lower factory start-up costs on 14nm as well as lower production costs on 14nm, which were treated as a period charge in 2014. Operating profit was $14.0 billion in 2015, a decrease of $1.3 billion from 2014, driven by lower gross margin and increased investments in our growth market segments of the data center, Internet of Things, and memory. Our operating profit decrease was partially offset by lower investment in the PC market segment. Our effective tax rate for 2015 of 19.6% decreased 6.3 points from 2014, driven by one-time items and our decision to indefinitely reinvest certain prior years' non-U.S. earnings.

The cash generation from our business remained strong, with cash from operations of $19.0 billion in 2015. During 2015, we purchased $7.3 billion of capital assets, down $2.8 billion from 2014. This change was primarily driven by our new strategy on next-generation process technology and manufacturing efficiencies, namely that we extended the length of time we plan to use the 14nm process technology by introducing a third 14nm product, code-named "Kaby Lake." This product will have key performance enhancements as compared to our 6th generation Intel Core processor family. We also returned cash to stockholders by both paying $4.6 billion in dividends and repurchasing $3.0 billion of common stock through our stock repurchase program. We ended the year with an investment portfolio of $25.3 billion, up approximately $11.3 billion from a year ago. That investment portfolio consisted of cash and cash equivalents, short-term investments, and trading assets. We issued approximately $9.5 billion of long-term debt to finance our Altera acquisition. For further information, see "Note 15: Borrowings" in Part II, Item 8 of this Form 10-K. Effective in Q1 2016, our annual dividend increased $0.08 to $1.04 per share and our Board of Directors declared a cash dividend of $0.26 per share of common stock.

Early in Q1 2016, we completed the acquisition of Altera. The acquisition will couple Intel's leading-edge products and manufacturing process with Altera's leading FPGA technology. The combination is expected to enable new classes of products that meet customer needs in the data center and Internet of Things market segments. We believe our product offerings and architectures will continue to enable innovation and growth in the data center and the Internet of Things market segments. The impact of the Altera acquisition has been reflected in our Business Outlook published in our January 2016 earnings release. For further information, see "Note 8: Acquisitions" in Part II, Item 8 of this Form 10-K.

Our Business Outlook for Q1 2016 and full year 2016 includes, where applicable, our current expectations for revenue, gross margin percentage, spending (R&D plus MG&A), and capital expenditures. We publish our Business Outlook in our quarterly earnings release.

Our Business Outlook and any updates thereto are publicly available on our Investor Relations website, www.intc.com. This Business Outlook is not incorporated by reference in 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 the Business Outlook or in this Form 10-K. The statements in the 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 the Business Outlook will be effective through the close of business on March 18, 2016, unless updated earlier. From the close of business on March 18, 2016 until our quarterly earnings release is published, currently scheduled for April 19, 2016, we will observe a "quiet period." During the quiet period, the Business Outlook and other forward-looking statements first published in our Form 8-K filed on January 14, 2016, 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 determination of useful lives for our property, plant and equipment and the related timing of when depreciation should begin;
- the valuation and allocation of assets acquired and liabilities assumed in connection with business combinations;
- the valuation and recoverability of long-lived assets (property, plant and equipment; identified intangibles and goodwill), which impact 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 $4.5 billion as of December 26, 2015 ($3.2 billion as of December 27, 2014).

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, 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 impairment and disclosure purposes; however, the investments are recorded at fair value only if an impairment is recognized. The measurement of fair value requires significant judgment and includes a qualitative and quantitative analysis of events or circumstances that impact the fair value of the investment. Qualitative analysis of our investments involves understanding each investee's revenue and earnings trends relative to pre-defined milestones and overall business prospects; the technological feasibility of our investee's products and technologies; the general market conditions in the investee's industry or geographic area, including adverse regulatory or economic changes; and the management and governance structure of the investee. Quantitative assessments of the fair value of our investments are developed using the market and income approaches. The market approach includes the use of financial metrics and ratios of comparable public companies, such as revenue, earnings, comparable performance multiples, recent financing rounds, the terms of investees' issued interests, and the level of marketability of the investments. The selection of comparable companies requires management judgment and is based on a number of factors, including comparable companies' sizes, growth rates, industries, and development stages. The income approach includes the use of a discounted cash flow model, which requires significant estimates regarding the investees' revenue, costs, and discount rates based on the risk profile of comparable companies. Estimates of revenue and costs are developed using available market, historical, and forecast data.

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 record the investment at fair value by recognizing an impairment. Impairments of non-marketable equity investments were $166 million in 2015 ($140 million in 2014 and $112 million in 2013).

### *Property, Plant and Equipment Depreciation*

Management judgment is required in determining the estimated economic useful lives of our property, plant and equipment, which can materially impact our depreciation expense. Accordingly, at least annually, we evaluate the period over which we expect to recover the economic value of these assets. During the assessment performed in Q4 2015, we considered factors such as the lengthening of the process technology cadence resulting in longer node transitions on both 14nm and 10nm products. With those longer transitions, we added a third product to our 14nm roadmap. We have also increased re-use of machinery and tools across each generation of process technology. As a result, we determined that the useful lives of machinery and equipment in our wafer fabrication facilities should be increased from four to five years. We will account for this as a change in estimate that will be applied prospectively, effective in Q1 2016. This change in depreciable life drives approximately $1.5 billion in lower depreciation expense for 2016. Approximately half of this benefit will increase gross margin (impacting both unit cost and start-up costs), approximately one-fourth will decrease R&D expenses, and the remaining one-fourth will result in lower inventory costs and ending inventory values.

As part of our long-range capacity planning, construction on certain facilities is on hold, and the facilities are not in use. These facilities are being held in a safe state, and we have plans to place them into service at a future date. The time at which these assets are placed into service depends on our existing manufacturing capacity, market demand for specific products, and where we are in the transition of products on our roadmap. Management is required to make judgments as to the timing of when these facilities will be readied for their intended use and placed into service for the manufacturing of our products, which is when depreciation begins.

### *Business Combinations*

Accounting for acquisitions requires our management to estimate the fair value of the assets and liabilities acquired, which involves a number of judgments, assumptions, and estimates that could materially affect the timing or amounts recognized in our financial statements. The items involving the most significant assumptions, estimates, and judgments include determining the fair value of the following:

- Intangible assets, including valuation methodology, estimations of future cash flows, and discount rates, as well as the estimated useful life of the intangible assets;
- the acquired company's brand, as well as assumptions about the period of time the acquired brand will continue to be used;
- deferred tax assets and liabilities, uncertain tax positions, and tax-related valuation allowances, which are initially estimated as of the acquisition date;
- inventory; property, plant and equipment; pre-existing liabilities or legal claims; deferred revenue; and contingent consideration, each as may be applicable, and
- goodwill as measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed.

We allocate goodwill and intangible assets to the reporting unit(s) based on the reporting unit(s) that are expected to benefit from the business combination. Upon any reorganization of our operating segments, we reevaluate our reporting units and, if necessary, reassign goodwill using a relative fair value allocation approach.

Our assumptions and estimates are based upon comparable market data and information obtained from our management and the management of the acquired companies. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year following the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

### *Long-Lived Asset Impairments*

#### *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. Based on our analysis, impairments and accelerated depreciation of our property, plant and equipment totaled $151 million in 2015 ($115 million in 2014 and $172 million in 2013).

### *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 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 assessment, we recognized impairment charges of $7 million in 2015 ($36 million in 2014 and $17 million in 2013).

### *Goodwill*

Goodwill is recorded when the purchase price of an acquisition exceeds the fair value of the net tangible and identified intangible assets acquired. Goodwill is allocated to our reporting units based on the relative expected fair value provided by the acquisition. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component, and are consistent with the operating segments identified in "Note 26: Operating Segments 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. Additionally, as part of this assessment, we may perform a quantitative analysis to support the qualitative factors above by applying sensitivities to assumptions and inputs used in measuring a reporting unit's fair value. 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 reporting unit, goodwill is not considered impaired and we are not required to perform additional analysis. 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 the 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 a reporting unit's fair value. The income method is based on a discounted future cash flow approach that uses the following assumptions and inputs: revenue, based on assumed market segment growth rates and our assumed market segment share; estimated costs; and appropriate discount rates based on a reporting unit's weighted average cost of capital as determined by considering the observable weighted average cost of capital of comparable companies. Our estimates of market segment growth, our market segment share, and costs are based on historical data, various internal estimates, and a variety of external sources. 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. A 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 2015, 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.

### *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 more likely than not, 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 is not more likely than not. 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.

We use a two-step process to recognize liabilities for uncertain tax positions. 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. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and may not accurately forecast actual outcomes. 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.

We have not recognized U.S. deferred income taxes on certain undistributed non-U.S. earnings because we plan to indefinitely reinvest such earnings outside the U.S. Remittances of non-U.S. earnings are based on estimates and judgments of projected cash flow needs, as well as the working capital and investment requirements of our non-U.S. and U.S. operations. Material changes in our estimates of cash, working capital, and investment needs in various jurisdictions could require repatriation of indefinitely reinvested non-U.S. earnings, which would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes.

### *Inventory*

Intel has a product development life cycle that corresponds with substantive engineering milestones. These engineering milestones are regularly and consistently applied in assessing the point at which our activities, and associated costs, change in nature from R&D to cost of sales. In order for a product to be manufactured in high volumes and sold to our customers under our standard warranty, it must meet our rigorous technical quality specifications. This milestone is known as product release qualification (PRQ). We have identified PRQ as the point at which the costs incurred to manufacture our products are included in the valuation of inventory.

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. Excess capacity charges were insignificant in 2015 (insignificant in 2014 and $319 million in 2013).

Inventory is valued at the lower of cost or market, based upon assumptions about future demand and market conditions. 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, customer acceptance of our products, and an assessment of selling price in relation to product cost. If the estimated market value of the inventory is less than the carrying value, we write down the inventory and record the difference as a charge to cost of sales. Inventory reserves increased by approximately $185 million in 2015 compared to 2014.

The valuation of inventory also requires us to estimate obsolete and excess inventory, as well as inventory that is not of saleable quality. The demand forecast is utilized in the development of our short-term manufacturing plans to enable consistency between inventory valuation and build decisions. 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. 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.

### *Loss Contingencies*

We are subject to loss contingencies, including various legal and regulatory proceedings and asserted and potential claims, accruals related to repair or replacement of parts in connection with product defects, as well as product warranties and potential asset impairments 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. 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.

## Results of Operations

Consolidated statements of income data as a percentage of net revenue for each period were as follows:

| Years Ended (In Millions, Except Per Share Amounts) | December 26, 2015 Dollars | December 26, 2015 % of Net Revenue | December 27, 2014 Dollars | December 27, 2014 % of Net Revenue | December 28, 2013 Dollars | December 28, 2013 % of Net Revenue |
|---|---|---|---|---|---|---|
| **Net revenue** | **$ 55,355** | **100.0 %** | **$ 55,870** | **100.0%** | **$ 52,708** | **100.0 %** |
| Cost of sales | 20,676 | 37.4 % | 20,261 | 36.3% | 21,187 | 40.2 % |
| **Gross margin** | **34,679** | **62.6 %** | **35,609** | **63.7%** | **31,521** | **59.8 %** |
| Research and development | 12,128 | 21.9 % | 11,537 | 20.6% | 10,611 | 20.1 % |
| Marketing, general and administrative | 7,930 | 14.3 % | 8,136 | 14.6% | 8,088 | 15.3 % |
| Restructuring and asset impairment charges | 354 | 0.6 % | 295 | 0.5% | 240 | 0.5 % |
| Amortization of acquisition-related intangibles | 265 | 0.5 % | 294 | 0.5% | 291 | 0.6 % |
| **Operating income** | **14,002** | **25.3 %** | **15,347** | **27.5%** | **12,291** | **23.3 %** |
| Gains (losses) on equity investments, net | 315 | 0.6 % | 411 | 0.7% | 471 | 0.9 % |
| Interest and other, net | (105) | (0.2)% | 43 | 0.1% | (151) | (0.3)% |
| **Income before taxes** | **14,212** | **25.7 %** | **15,801** | **28.3%** | **12,611** | **23.9 %** |
| Provision for taxes | 2,792 | 5.1 % | 4,097 | 7.4% | 2,991 | 5.6 % |
| **Net income** | **$ 11,420** | **20.6 %** | **$ 11,704** | **20.9%** | **$ 9,620** | **18.3 %** |
| **Diluted earnings per share of common stock** | **$ 2.33** | | **$ 2.31** | | **$ 1.89** | |

Our net revenue in 2015 decreased by $515 million, or 1%, compared to 2014. Platform unit sales were down 9% due to challenging macroeconomic conditions, particularly in the first half of the year, and higher PC demand in 2014 driven by the Microsoft Windows XP refresh. The decrease in PC demand was partially offset by higher DCG and IOTG platform unit sales. The decrease in revenue was partially offset by higher platform average selling prices, which were up 8%, as we benefited from a higher mix of DCG platform unit sales and higher average selling prices on desktop and DCG platforms. To a lesser extent, the decrease in revenue was partially offset by higher NSG revenue.

Our overall gross margin percentage was 62.6% in 2015, down from 63.7% in 2014. The decrease in gross margin percentage was primarily due to the gross margin decrease in the CCG operating segment. We derived a substantial majority of our overall gross margin dollars for 2015 and 2014 from the sale of platforms in the CCG and DCG operating segments. Our overall gross margin dollars in 2015 decreased by $930 million, or 3%, compared to 2014. The following results drove the change in gross margin in 2015 compared to 2014 by approximately the amounts indicated:

| (In Millions) | Gross Margin Reconciliation (2015 compared to 2014): |
|---|---|
| $ (1,965) | Higher platform unit costs, primarily driven by the ramp of our 14nm process technology |
| 400 | Lower factory start-up costs, primarily driven by the ramp of our 14nm process technology |
| 205 | Lower production costs primarily on our 14nm products, which were treated as period charges in 2014, partially offset by higher pre-qualification product costs on 14nm products |
| 430 | Other |
| **$ (930)** | |

Our net revenue for 2014 was up $3.2 billion, or 6%, compared to 2013. Platform unit sales were up 19%, primarily driven by the ramp of our tablet platform and strength in the traditional PC business. To a lesser extent, higher NSG revenue also contributed to the increase. These increases were partially offset by lower platform average selling prices, which were down 10% primarily on mix shift on significantly higher tablet and phone platform unit sales and cash consideration associated with integrating our tablet and phone platforms. To a lesser extent, lower CCG phone component unit sales partially offset the increase in revenue.

Our overall gross margin percentage was 63.7% in 2014, up from 59.8% in 2013. The increase in gross margin percentage was primarily due to the gross margin increase in the CCG and DCG operating segments. We derived most of our overall gross margin dollars for 2014 and 2013 from the sale of platforms in the CCG and DCG operating segments. Our overall gross margin dollars for 2014 increased by $4.1 billion, or 13%, compared to 2013. The following results drove the change in gross margin in 2014 compared to 2013 by approximately the amounts indicated:

| (In Millions) | | Gross Margin Reconciliation (2014 compared to 2013): |
|---|---|---|
| $ | 2,575 | Lower platform unit costs |
| | 1,160 | Higher gross margin from platform revenue [1] |
| | 860 | Lower factory start-up costs, primarily driven by our 14nm process technology |
| | (507) | Other |
| **$** | **4,088** | |

[1] *Higher gross margin from platform revenue was driven by higher platform unit sales, which were partially offset by lower platform average selling prices. The decrease in platform average selling prices was due to a shift in market segment mix (higher tablet and phone platform unit sales with higher cash consideration to our customers associated with integration of our platform) and lower notebook platform average selling prices.*

### *Client Computing Group*

The revenue and operating income for the CCG operating segment for 2015 and 2014 were as follows:

| Years Ended (In Millions) | | Dec 26, 2015 | | Dec 27, 2014 | | Change | % Change |
|---|---|---|---|---|---|---|---|
| Platform | $ | 30,654 | $ | 33,210 | $ | (2,556) | (8)% |
| Other | | 1,565 | | 1,662 | | (97) | (6)% |
| **Net revenue** | **$** | **32,219** | **$** | **34,872** | **$** | **(2,653)** | **(8)%** |
| **Operating income** | **$** | **8,165** | **$** | **10,323** | **$** | **(2,158)** | **(21)%** |
| CCG platform unit sales | | | | | | | (11)% |
| CCG platform average selling prices | | | | | | | 4 % |

Our CCG platform unit sales decreased in 2015 compared to 2014 due to challenging macroeconomic conditions, particularly in the first half of the year, and higher PC demand in 2014 driven by the Microsoft Windows XP refresh. Our results, as compared to the prior year, did benefit from a richer mix of high-performance platforms. Within the CCG operating segment, the following results drove the change in revenue in 2015 compared to 2014:

| (In Millions) | | Revenue Reconciliation (2015 compared to 2014): |
|---|---|---|
| $ | (2,304) | Lower desktop platform unit sales, down 16% |
| | (1,695) | Lower notebook platform unit sales, down 9% |
| | 760 | Higher desktop platform average selling prices, up 6% |
| | 300 | Higher notebook platform average selling prices, up 2% |
| | 272 | Higher tablet platform average selling prices |
| | 14 | Other |
| **$** | **(2,653)** | |

The following results drove the change in CCG operating income in 2015 compared to 2014 by approximately the amounts indicated:

| (In Millions) | Operating Income Reconciliation (2015 compared to 2014): |
|---|---|
| $ (2,060) | Higher CCG platform unit costs |
| (1,565) | Lower CCG platform revenue[1] |
| 435 | Lower factory start-up costs, primarily driven by the ramp of our 14nm process technology |
| 430 | Lower production costs primarily on our 14nm products, which were treated as a period charges in 2014 |
| 375 | Lower operating expense |
| 227 | Other |
| **$ (2,158)** | |

[1] *Lower gross margin from lower CCG platform revenue was driven by lower CCG platform unit sales, partially offset by higher CCG platform average selling prices. CCG platform average selling prices increased due to higher average selling prices on desktop, notebook, and tablet platforms, partially offset by a market segment mix to phone platform from tablet and desktop platforms.*

The revenue and operating income for the CCG operating segment for 2014 and 2013 were as follows:

| Years Ended (In Millions) | Dec 27, 2014 | Dec 28, 2013 | Change | % Change |
|---|---|---|---|---|
| Platform | $ 33,210 | $ 32,385 | $ 825 | 3 % |
| Other | 1,662 | 2,260 | (598) | (26)% |
| **Net revenue** | **$ 34,872** | **$ 34,645** | **$ 227** | **1 %** |
| **Operating income** | **$ 10,323** | **$ 8,708** | **$ 1,615** | **19 %** |
| CCG platform unit sales | | | | 20 % |
| CCG platform average selling prices | | | | (15)% |

Our CCG operating segment results benefited from strength in the traditional PC business driven by the Microsoft Windows XP refresh. Within the CCG operating segment, the following market segment results drove the change in revenue in 2014 compared to 2013:

| (In Millions) | Revenue Reconciliation (2014 compared to 2013): |
|---|---|
| $ 2,101 | Higher notebook platform unit sales, up 11% |
| 501 | Higher desktop platform unit sales, up 3% |
| 305 | Higher tablet platform unit sales |
| (1,514) | Lower notebook platform average selling prices, down 7% |
| (711) | Lower tablet platform average selling prices, primarily driven by higher cash consideration to our customers associated with integrating our platform |
| (515) | Lower phone component unit sales |
| 60 | Other |
| **$ 227** | |

The following results drove the change in CCG operating income in 2014 compared to 2013 by approximately the amounts indicated:

| (In Millions) | Operating Income Reconciliation (2014 compared to 2013): |
|---|---|
| $ 2,160 | Lower CCG platform unit costs |
| 915 | Lower factory start-up costs, primarily driven by our 14nm process technology |
| 80 | Lower operating expense |
| (990) | Lower gross margin from CCG platform revenue [1] |
| (345) | Lower phone component revenue |
| (205) | Other |
| **$ 1,615** | |

[1] *Lower gross margin from CCG platform revenue was driven by lower CCG platform average selling prices, partially offset by higher CCG platform unit sales. Lower CCG platform average selling prices were due to a shift in market segment mix (higher tablet and phone platform unit sales) and lower notebook and tablet platform average selling prices.*

### *Data Center Group*

The revenue and operating income for the DCG operating segment for 2015 and 2014 were as follows:

| Years Ended (In Millions) | Dec 26, 2015 | Dec 27, 2014 | Change | % Change |
|---|---|---|---|---|
| Platform | $ 14,882 | $ 13,366 | $ 1,516 | 11% |
| Other | 1,095 | 1,021 | 74 | 7% |
| **Net revenue** | **$ 15,977** | **$ 14,387** | **$ 1,590** | **11%** |
| **Operating income** | **$ 7,844** | **$ 7,390** | **$ 454** | **6%** |
| DCG platform unit sales | | | | 8% |
| DCG platform average selling prices | | | | 3% |

Our DCG platform revenue increased primarily due to growth in the Internet cloud computing market segment. To a lesser extent, growth in the communications infrastructure market segment also contributed to the increase. The following results drove the change in DCG revenue in 2015 compared to 2014:

| (In Millions) | Revenue Reconciliation (2015 compared to 2014): |
|---|---|
| $ 1,023 | Higher DCG platform unit sales |
| 493 | Higher DCG platform average selling prices |
| 74 | Other |
| **$ 1,590** | |

The following results drove the change in DCG operating income in 2015 compared to 2014 by approximately the amounts indicated:

| (In Millions) | Operating Income Reconciliation (2015 compared to 2014): |
|---|---|
| $ 1,415 | Higher DCG platform revenue |
| (725) | Higher operating expense, primarily driven by higher shared product development costs |
| (236) | Other |
| **$ 454** | |

The revenue and operating income for the DCG operating segment for 2014 and 2013 were as follows:

| Years Ended (In Millions) | Dec 27, 2014 | Dec 28, 2013 | Change | % Change |
|---|---|---|---|---|
| Platform | $ 13,366 | $ 11,219 | $ 2,147 | 19% |
| Other | 1,021 | 944 | 77 | 8% |
| **Net revenue** | **$ 14,387** | **$ 12,163** | **$ 2,224** | **18%** |
| **Operating income** | **$ 7,390** | **$ 5,456** | **$ 1,934** | **35%** |
| DCG platform unit sales | | | | 8% |
| DCG platform average selling prices | | | | 10% |

Our DCG platform revenue continued to benefit from growth in the cloud and technical computing market segments, with continued strengthening of the enterprise market segment. The following results drove the change in DCG revenue in 2014 compared to 2013:

| (In Millions) | Revenue Reconciliation (2014 compared to 2013): |
|---|---|
| $ 1,200 | Higher DCG platform average selling prices |
| 947 | Higher DCG platform unit sales |
| 77 | Other |
| **$ 2,224** | |

The following results drove the change in DCG operating income in 2014 compared to 2013 by approximately the amounts indicated:

| (In Millions) | Operating Income Reconciliation (2014 compared to 2013): |
|---|---|
| $ 2,020 | Higher DCG platform revenue |
| 220 | Lower DCG platform unit costs |
| (465) | Higher operating expense, primarily driven by higher direct and shared product development costs |
| 159 | Other |
| **$ 1,934** | |

### *Internet of Things Group*

The revenue and operating income for the IOTG operating segment for 2015 and 2014 were as follows:

| Years Ended (In Millions) | Dec 26, 2015 | Dec 27, 2014 | Change | % Change |
|---|---|---|---|---|
| Platform | $ 1,976 | $ 1,814 | $ 162 | 9 % |
| Other | 322 | 328 | (6) | (2)% |
| **Net revenue** | **$ 2,298** | **$ 2,142** | **$ 156** | **7 %** |
| **Operating income** | **$ 515** | **$ 583** | **$ (68)** | **(12)%** |

Net revenue for the IOTG operating segment increased in 2015 compared to 2014, primarily due to higher IOTG platform unit sales based on strength in the retail market segment. The increase was partially offset by lower IOTG platform average selling prices.

Operating income for the IOTG operating segment decreased in 2015 compared to 2014, driven by continued investment in product development across our operating segments, including the Internet of Things market segment. This decrease was partially offset by lower unit costs related to product transition and higher IOTG platform revenue.

The revenue and operating income for the IOTG operating segment for 2014 and 2013 were as follows:

| Years Ended (In Millions) | Dec 27, 2014 | Dec 28, 2013 | Change | % Change |
|---|---|---|---|---|
| Platform | $ 1,814 | $ 1,485 | $ 329 | 22% |
| Other | 328 | 316 | 12 | 4% |
| **Net revenue** | **$ 2,142** | **$ 1,801** | **$ 341** | **19%** |
| **Operating income** | **$ 583** | **$ 532** | **$ 51** | **10%** |

Net revenue for the IOTG operating segment increased by $341 million, or 19%, in 2014 compared to 2013. The increase was primarily due to higher IOTG platform unit sales based on strength in the retail and industrial market segments.

Operating income for the IOTG operating segment increased by $51 million, or 10%, in 2014 compared to 2013. The increase was primarily due to higher IOTG platform revenue, partially offset by higher IOTG platform operating expenses.

### *Software and Services Operating Segments*

The revenue and operating income for the SSG operating segments, including the Intel Security Group and the Software and Services Group, for 2015 and 2014 were as follows:

| Years Ended (In Millions) | Dec 26, 2015 | Dec 27, 2014 | Change | % Change |
|---|---|---|---|---|
| **Net revenue** | **$ 2,167** | **$ 2,216** | **$ (49)** | **(2)%** |
| **Operating income** | **$ 210** | **$ 81** | **$ 129** | **159 %** |

Operating income for the SSG operating segments increased in 2015 compared to 2014, driven by $132 million of lower operating expense.

The revenue and operating income for the SSG operating segments for 2014 and 2013 were as follows:

| Years Ended (In Millions) | Dec 27, 2014 | Dec 28, 2013 | Change | % Change |
|---|---|---|---|---|
| **Net revenue** | **$ 2,216** | **$ 2,188** | **$ 28** | **1%** |
| **Operating income** | **$ 81** | **$ 57** | **$ 24** | **42%** |

### *Operating Expenses*

Operating expenses for each period were as follows:

| Years Ended (In Millions) | Dec 26, 2015 | Dec 27, 2014 | Dec 28, 2013 |
|---|---|---|---|
| Research and development (R&D) | $ 12,128 | $ 11,537 | $ 10,611 |
| Marketing, general and administrative (MG&A) | $ 7,930 | $ 8,136 | $ 8,088 |
| R&D and MG&A as percentage of net revenue | 36% | 35% | 35% |
| Restructuring and asset impairment charges | $ 354 | $ 295 | $ 240 |
| Amortization of acquisition-related intangibles | $ 265 | $ 294 | $ 291 |

#### *Research and Development*

R&D spending increased by $591 million, or 5%, in 2015 compared to 2014. The increase was due to higher investment in our products—primarily server, Internet of Things, and new devices—as well as expenses of newly acquired entities and higher process development costs for our 10nm process technology. This increase was partially offset by lower profit-dependent compensation and savings from the implementation of efficiencies within our CCG operating segment.

R&D spending increased by $926 million, or 9%, in 2014 compared to 2013. The increase was due to higher process development costs for our 10nm process technology, higher compensation expenses for both profit-dependent compensation and annual salary increases, as well as higher investments in our products, primarily server and new devices. This increase was partially offset by lower product investments in our phone, tablet, and Intel Media businesses.

*Marketing, General and Administrative*

MG&A expenses decreased by $206 million, or 3%, in 2015 compared to 2014. This decrease was due to lower profit-dependent compensation as well as lower expenses from businesses that have been divested. MG&A expenses increased by $48 million in 2014 compared to 2013.

*Restructuring and Asset Impairment Charges*

Restructuring and asset impairment charges by program for each period were as follows:

| Years Ended (In Millions) | Dec 26, 2015 | Dec 27, 2014 | Dec 28, 2013 |
|---|---|---|---|
| 2015 restructuring program | $ 264 | $ — | $ — |
| 2013 restructuring program | 90 | 295 | 240 |
| **Total restructuring and asset impairment charges** | **$ 354** | **$ 295** | **$ 240** |

*2015 Restructuring Program*. Beginning in Q2 2015, management approved and commenced implementation of restructuring actions, primarily targeted workforce reductions, as we adjusted resources from areas of disinvestment to areas of investment. This program was substantially complete by the end of 2015.

Restructuring and asset impairment charges for the 2015 restructuring program in 2015 were as follows:

| Years Ended (In Millions) | Dec 26, 2015 |
|---|---|
| Employee severance and benefit arrangements | $ 250 |
| Asset impairments and other restructuring charges | 14 |
| **Total restructuring and asset impairment charges** | **$ 264** |

Restructuring and asset impairment activities for the 2015 restructuring program in 2015 were as follows:

| (In Millions) | Employee Severance and Benefits | Asset Impairments and Other | Total |
|---|---|---|---|
| **Accrued restructuring balance as of December 27, 2014** | $ — | $ — | $ — |
| Additional accruals | 292 | 14 | 306 |
| Adjustments | (42) | — | (42) |
| Cash payments | (225) | (1) | (226) |
| Non-cash settlements | — | (6) | (6) |
| **Accrued restructuring balance as of December 26, 2015** | **$ 25** | **$ 7** | **$ 32** |

We recorded the additional accruals as restructuring and asset impairment charges in the consolidated statements of income and within the “all other” operating segments category. A substantial majority of the accrued restructuring balance as of December 26, 2015 is expected to be paid within the next 12 months, and was recorded as a current liability within accrued compensation and benefits on the consolidated balance sheets.

Restructuring actions related to this program that were approved in 2015 impacted approximately 4,000 employees. We estimate that employee severance and benefit charges to date will result in gross annual savings of approximately $400 million, which will be realized within R&D, cost of sales, and MG&A. We began to realize these savings in Q2 2015 and expect to fully realize these savings after the actions are complete.

*2013 Restructuring Program.* Beginning in Q3 2013, management approved and commenced implementation of several restructuring actions, including targeted workforce reductions and the exit of certain businesses and facilities. These actions include the wind down of our 200mm wafer fabrication facility in Massachusetts, which ceased production in Q1 2015, and the closure of our assembly and test facility in Costa Rica, which ceased production in Q4 2014. These targeted reductions will enable us to better align our resources in areas providing the greatest benefit in the current business environment. This program was substantially complete by the end of 2015.

Restructuring and asset impairment charges for the 2013 restructuring program for each period were as follows:

| Years Ended (In Millions) | Dec 26, 2015 | Dec 27, 2014 | Dec 28, 2013 |
|---|---|---|---|
| Employee severance and benefit arrangements | $ 82 | $ 265 | $ 201 |
| Asset impairments and other restructuring charges | 8 | 30 | 39 |
| **Total restructuring and asset impairment charges** | **$ 90** | **$ 295** | **$ 240** |

Restructuring and asset impairment activities for the 2013 restructuring program for each period were as follows:

| (In Millions) | Employee Severance and Benefits | Asset Impairments and Other | Total |
|---|---|---|---|
| **Accrued restructuring balance as of December 28, 2013** | **$ 183** | **$ —** | **$ 183** |
| Additional accruals | 252 | 31 | 283 |
| Adjustments | 13 | (1) | 12 |
| Cash payments | (327) | (6) | (333) |
| Non-cash settlements | — | (13) | (13) |
| **Accrued restructuring balance as of December 27, 2014** | **121** | **11** | **132** |
| Additional accruals | 101 | 9 | 110 |
| Adjustments | (19) | (1) | (20) |
| Cash payments | (171) | (10) | (181) |
| Non-cash settlements | — | (3) | (3) |
| **Accrued restructuring balance as of December 26, 2015** | **$ 32** | **$ 6** | **$ 38** |

We recorded the additional accruals and adjustments as restructuring and asset impairment charges in the consolidated statements of income and within the "all other" operating segments category. Substantially all of the accrued restructuring balance as of December 26, 2015 is expected to be paid within the next 12 months, and was recorded as a current liability within accrued compensation and benefits on the consolidated balance sheets.

Restructuring actions related to this program that were approved in 2015 impacted approximately 940 employees. Since Q3 2013, we have incurred a total of $625 million in restructuring and asset impairment charges. These charges include $548 million related to employee severance and benefit arrangements for approximately 8,500 employees, and $77 million in asset impairment charges and other restructuring charges.

We estimate that employee severance and benefit charges to date will result in gross annual savings of approximately $600 million, which will be realized within R&D, MG&A, and cost of sales. We began to realize these savings in Q4 2013 and expect to fully realize these savings after the actions are complete.

### *Share-Based Compensation*

Share-based compensation totaled $1.3 billion in 2015 ($1.1 billion in 2014 and $1.1 billion in 2013). Share-based compensation was included in cost of sales and operating expenses.

As of December 26, 2015, 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 |
|---|---|---|
| Restricted stock units | $ 1,789 | 1.2 years |
| Stock options | $ 13 | 8 months |
| Stock Purchase Plan | $ 14 | 2 months |

### *Gains (Losses) on Equity Investments and Interest and Other, Net*

Gains (losses) on equity investments, net and interest and other, net for each period were as follows:

| Years Ended (In Millions) | Dec 26, 2015 | Dec 27, 2014 | Dec 28, 2013 |
|---|---|---|---|
| Gains (losses) on equity investments, net | $ 315 | $ 411 | $ 471 |
| Interest and other, net | $ (105) | $ 43 | $ (151) |

We recognized lower net gains on equity investments in 2015 compared to 2014 due to lower gains on sales of equity investments, partially offset by higher gains on third-party merger transactions.

We recognized lower net gains on equity investments in 2014 compared to 2013 due to lower gains on sales of equity investments, partially offset by higher gains on third-party merger transactions. The majority of gains on sales, net for 2014 resulted from gains on private equity sales. Net gains on equity investments for 2013 included gains of $439 million on the sales of our interest in Clearwire Communications, LLC and our shares in Clearwire Corporation in Q3 2013. For further information on these transactions, see "Note 5: Cash and Investments" in Part II, Item 8 of this Form 10-K.

We recognized an interest and other net loss in 2015 compared to a net gain in 2014 primarily due to higher interest expense, which includes the 2015 issuances of our $9.5 billion aggregate principal amount of senior unsecured notes. For further information on these transactions, see " Note 15: Borrowings" in Part II, Item 8 of this Form 10-K.

We recognized an interest and other net gain in 2014 compared to a net loss in 2013 due to a gain recognized on the divestiture of our Intel Media assets in 2014.

### *Provision for Taxes*

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

| Years Ended (In Millions) | Dec 26, 2015 | Dec 27, 2014 | Dec 28, 2013 |
|---|---|---|---|
| Income before taxes | $ 14,212 | $ 15,801 | $ 12,611 |
| Provision for taxes | $ 2,792 | $ 4,097 | $ 2,991 |
| Effective tax rate | 19.6% | 25.9% | 23.7% |

Most of the decrease in our effective tax rate in 2015 compared to 2014 was driven by one-time items, a higher proportion of our income from lower tax jurisdictions, and our decision to indefinitely reinvest certain prior years' non-U.S. earnings positively impacted our effective income tax rate.

A substantial majority of the increase in our effective tax rate between 2014 and 2013 was driven by the reenacted U.S. R&D tax credit in 2013 containing two years' worth of R&D tax credits. The U.S. R&D tax credit was reenacted in Q4 2014 retroactive for the full year. It was also reenacted in Q1 2013 retroactive to the beginning of 2012.

## Liquidity and Capital Resources

| (Dollars in Millions) | Dec 26, 2015 | Dec 27, 2014 |
|---|---|---|
| Cash and cash equivalents, short-term investments, and trading assets | $ 25,313 | $ 14,054 |
| Other long-term investments | $ 1,891 | $ 2,023 |
| Loans receivable and other | $ 1,170 | $ 1,335 |
| Reverse repurchase agreements with original maturities greater than approximately three months | $ 1,000 | $ 450 |
| Unsettled trade liabilities and other | $ 99 | $ 77 |
| Short-term and long-term debt | $ 22,670 | $ 13,655 |
| Temporary equity | $ 897 | $ 912 |
| Debt as percentage of permanent stockholders’ equity | 37.1% | 24.4% |

**Sources and Uses of Cash**
(In Millions)

In summary, our cash flows for each period were as follows:

| Years Ended (In Millions) | Dec 26, 2015 | Dec 27, 2014 | Dec 28, 2013 |
|---|---|---|---|
| Net cash provided by operating activities | $ 19,017 | $ 20,418 | $ 20,776 |
| Net cash used for investing activities | (8,183) | (9,905) | (18,073) |
| Net cash provided by (used for) financing activities | 1,912 | (13,611) | (5,498) |
| Effect of exchange rate fluctuations on cash and cash equivalents | 1 | (15) | (9) |
| **Net increase (decrease) in cash and cash equivalents** | **$ 12,747** | **$ (3,113)** | **$ (2,804)** |

### *Operating Activities*

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

For 2015 compared to 2014, the $1.4 billion decrease in cash provided by operating activities was due to changes in working capital, adjustments for non-cash items, and lower net income. The adjustments for non-cash items were lower due primarily to deferred taxes, partially offset by higher depreciation. Income taxes paid, net of refunds, in 2015 compared to 2014 were $1.2 billion lower due to lower income before taxes in 2015.

Changes in assets and liabilities as of December 26, 2015 compared to December 27, 2014 included a decrease in accrued compensation and benefits. This decrease was due to higher profit-dependent compensation in 2014 that was paid out in 2015, and an increase in inventories due primarily to the ramp of our 6th generation Intel Core processor family of products, partially offset by the timing of certain tax benefits that reduced our income taxes payable position in 2015.

Hewlett-Packard Company, our largest customer in 2014, separated into HP Inc. and Hewlett Packard Enterprise Company on November 1, 2015. In 2015, these entities collectively accounted for 18% of our net revenue (18% in 2014 and 17% in 2013), Dell Inc. accounted for 15% of our net revenue (16% in 2014 and 15% in 2013), and Lenovo Group Limited accounted for 13% of our net revenue (12% in 2014 and 12% in 2013). Combined, these customers accounted for 46% of our net revenue (46% in 2014 and 44% in 2013) and 49% of our accounts receivable as of December 26, 2015 (43% as of December 27, 2014).

For 2014 compared to 2013, the $358 million decrease in cash provided by operating activities was due to changes in working capital, partially offset by higher net income and adjustment for non-cash items.

### *Investing Activities*

Investing cash flows consist primarily of capital expenditures; investment purchases, sales, maturities, and disposals; and proceeds from divestitures and cash used for acquisitions. Our capital expenditures were $7.3 billion in 2015 ($10.1 billion in 2014 and $10.7 billion in 2013).

The decrease in cash used for investing activities in 2015 compared to 2014 was primarily due to net trading assets activity (which was a source of cash in 2015 compared to a use of cash in 2014) and lower capital expenditures. This activity was partially offset by net available-for-sale activity (which was cash flow neutral in 2015 compared to a source of cash in 2014) and higher investments in non-marketable equity investments.

The decrease in cash used for investing activities in 2014 compared to 2013 was primarily due to net available-for-sale activity (which was a source of cash in 2014 compared to a use of cash in 2013) and a decrease in cash used for net trading assets activity. This activity was partially offset by an increase in investments in non-marketable equity investments.

### *Financing Activities*

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

Cash was provided by financing activities in 2015 compared to cash used by financing activities in 2014, primarily due to the issuance of $9.5 billion of long-term debt and fewer repurchases of common stock under our authorized stock repurchase program, partially offset by lower proceeds from the sales of common stock through employee equity incentive plans and repayments of short-term debt compared to borrowings in 2014. We have an ongoing authorization, originally approved by our Board of Directors in 2005, and subsequently amended, to repurchase up to $65.0 billion in shares of our common stock in the open market or negotiated transactions. During 2015, we repurchased $3.0 billion of common stock under our authorized common stock repurchase program, compared to $10.8 billion in 2014. As of December 26, 2015, $9.4 billion remained available for repurchasing common stock 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 common stock through employee equity incentive plans totaled $866 million in 2015 compared to $1.7 billion in 2014. Our total dividend payments were $4.6 billion in 2015 compared to $4.4 billion in 2014. We have paid a cash dividend in each of the past 93 quarters. In January 2016, our Board of Directors declared a cash dividend of $0.26 per share of common stock for Q1 2016. The dividend is payable on March 1, 2016 to stockholders of record on February 7, 2016.

The increase in cash used for financing activities in 2014 compared to 2013 was primarily due to an increase in repurchases of common stock under our authorized stock repurchase program, partially offset by the issuance of short-term debt in 2014.

### *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 26, 2015, cash and cash equivalents, short-term investments, and trading assets totaled $25.3 billion ($14.1 billion as of December 27, 2014). The increased balance compared to December 27, 2014 was primarily related to the accumulation of cash consideration required for our acquisition of Altera, which closed on December 28, 2015, subsequent to our fiscal 2015 year-end. In addition to the $25.3 billion, we have $1.9 billion of other long-term investments, $1.2 billion of loans receivable and other, and $1.0 billion of reverse repurchase agreements with original maturities greater than approximately three months that we include when assessing our sources of liquidity. Substantially all of our investments in debt instruments are in A/A2 or better rated issuances, and a substantial majority of the issuances are rated AA-/Aa3 or better.

Other potential sources of liquidity include our commercial paper program and our automatic shelf registration statement on file with the SEC, pursuant to which we may offer an unspecified amount of debt, equity, and other securities. Under our commercial paper program, we have an ongoing authorization from our Board of Directors to borrow up to $5.0 billion, which increased in 2015 from $3.0 billion. Maximum borrowings under our commercial paper program were $900 million during 2015, and no commercial paper remained outstanding as of December 26, 2015. Our commercial paper was rated A-1+ by Standard & Poor's and P-1 by Moody's as of December 26, 2015. On December 21, 2015, we entered into a short-term credit facility to borrow up to $5.0 billion to facilitate the settlement of our acquisition of Altera. No borrowings were outstanding under this credit facility as of December 26, 2015 and it was closed in January 2016. In 2015, we issued $9.5 billion aggregate principal amount of senior unsecured notes. These notes were issued primarily to fund a portion of the cash consideration for our pending acquisition of Altera and for general corporate purposes, which may include the refinancing of existing indebtedness. For further information on the terms of the notes, see "Note 15: Borrowings" in Part II, Item 8 of this Form 10-K.

As of December 26, 2015, $11.1 billion of our $25.3 billion of cash and cash equivalents, short-term investments, and trading assets was held by our non-U.S. subsidiaries. Of the $11.1 billion held by our non-U.S. subsidiaries, approximately $2.6 billion was available for use in the U.S. without incurring additional U.S. income taxes in excess of the amounts already accrued in our financial statements as of December 26, 2015. The remaining amount of non-U.S. cash and cash equivalents, short-term investments, and trading assets has been indefinitely reinvested and, therefore, no U.S. current or deferred taxes have been accrued. This amount is earmarked for near-term investment in our operations outside the U.S. and future acquisitions of non-U.S. entities. We believe our U.S. sources of cash and liquidity are sufficient to meet our business needs in the U.S., and do not expect that we will need to repatriate the funds we have designated as indefinitely reinvested outside the U.S. Under current tax laws, should our plans change and we were to choose to repatriate some or all of the funds we have designated as indefinitely reinvested outside the U.S., such amounts would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes.

During 2015, we entered into a definitive agreement to acquire Altera in an all-cash transaction. The transaction closed on December 28, 2015, subsequent to our fiscal 2015 year-end. As of the date we entered into the agreement, the transaction had an approximate value of $16.7 billion. We financed a portion of the acquisition by issuing $9.5 billion in long-term debt during 2015 and borrowing $4.0 billion against our short-term credit facility in the first quarter of 2016. We funded the remainder of the acquisition with issuances of commercial paper and existing cash and investments. For information on our indebtedness, see "Note 15: Borrowings" in Part II, Item 8 of this Form 10-K.

We believe that we have sufficient financial resources to meet our business requirements in the next 12 months, including capital expenditures for worldwide manufacturing and assembly and test; working capital requirements; and potential dividends, common stock repurchases, acquisitions, and 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" and "Note 4: Fair Value" in Part II, Item 8 of this Form 10-K.

### *Marketable Debt Instruments*

As of December 26, 2015, our assets measured and recorded at fair value on a recurring basis included $23.4 billion of marketable debt instruments. Of these instruments, $13.2 billion was classified as Level 1, $10.0 billion as Level 2, and $118 million as Level 3.

Our marketable debt instruments that are measured and recorded at fair value on a recurring basis and classified as Level 1 were classified as such due to the use of observable market prices for identical instruments that are traded in active markets. We evaluate instrument-specific market data when determining whether the market for a debt instrument 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 50% was classified as Level 2 due to the use of a discounted cash flow model performed by us, and approximately 50% 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 are classified as such because the fair values are generally derived from discounted cash flow models, performed either by us or our pricing providers, using inputs that we are unable to corroborate with observable market data. We monitor and review the inputs and results of these valuation models to help ensure the fair value measurements are reasonable and consistent with market experience in similar asset classes.

### *Loans Receivable and Reverse Repurchase Agreements*

As of December 26, 2015, our assets measured and recorded at fair value on a recurring basis included $479 million of loans receivable and $2.4 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 26, 2015, our assets measured and recorded at fair value on a recurring basis included $6.0 billion of marketable equity securities. Substantially 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

Significant contractual obligations as of December 26, 2015 were as follows:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **(In Millions)** | **Total** | **Less Than 1 Year** | **1–3 Years** | **3–5 Years** | **More Than 5 Years** |
| Operating lease obligations | $ 1,200 | $ 234 | $ 376 | $ 264 | $ 326 |
| Capital purchase obligations[1] | 5,746 | 4,250 | 1,496 | — | — |
| Other purchase obligations and commitments[2] | 3,966 | 1,784 | 1,986 | 196 | — |
| Long-term debt obligations[3] | 38,120 | 2,299 | 4,499 | 3,383 | 27,939 |
| Other long-term liabilities[4, 5] | 1,263 | 788 | 214 | 105 | 156 |
| **Total[6]** | **$ 50,295** | **$ 9,355** | **$ 8,571** | **$ 3,948** | **$ 28,421** |

[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 26, 2015, 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 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. Debt obligations are classified based on their stated maturity date, regardless of their classification on the 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, $114 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 $68 million to be made during 2016 are also included; however, funding projections beyond 2016 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.*

The expected timing of payments of the obligations in the preceding table 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.

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 have been excluded from 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 have been excluded from the preceding table. These obligations include milestone-based co-marketing agreements, contingent funding or payment obligations, and milestone-based equity investment funding. These arrangements are not considered contractual obligations until the milestone is met by the counterparty. As of December 26, 2015, assuming that all future milestones are met, excluding the ASML milestones mentioned below, the additional required payments would be approximately $827 million. During 2012, we entered into a series of agreements with ASML intended to accelerate the development of EUV lithography, certain of which were amended in 2014. Under the amended agreements, Intel agreed to provide R&D funding totaling €829 million over five years and committed to advance purchase orders for a specified number of tools from ASML. Our remaining obligation, contingent upon ASML achieving certain milestones, is approximately €367 million, or $403 million, as of December 26, 2015. As our obligation is contingent upon ASML achieving certain milestones, we have excluded this obligation from the preceding table.

For the majority of RSUs granted, the number of shares of common stock issued on the date the RSUs 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 excluded from 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.

During 2014, we entered into a series of agreements with Tsinghua Unigroup Ltd. (Tsinghua Unigroup), an operating subsidiary of Tsinghua Holdings Co. Ltd., to, among other things, jointly develop Intel architecture- and communications-based solutions for phones. Subject to regulatory approvals and other closing conditions, we have also agreed to invest up to 9.0 billion Chinese yuan (approximately $1.5 billion as of the date of the agreement) for a minority stake of approximately 20% of UniSpreadtrum. During 2015, we invested $966 million to complete the first phase of the equity investment. The second phase of the investment will require additional funding of approximately $500 million; however, as our obligation is contingent upon regulatory approvals and other closing conditions, it has been excluded from the preceding table.

### Off-Balance-Sheet Arrangements

As of December 26, 2015, 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 affected by changes in currency exchange rates, interest rates, and equity prices. All of the following potential changes are based on sensitivity analyses performed on our financial positions as of December 26, 2015, and December 27, 2014. 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 are generally offset by corresponding gains and losses on the related hedging instruments.

Substantially all of our revenue is transacted in U.S. dollars. However, a significant portion of our operating expenditures and capital purchases are incurred in or exposed to other currencies, primarily the euro, the Chinese yuan, the Japanese yen, and the Israeli shekel . We have established balance sheet and forecasted transaction currency risk management programs to protect against fluctuations in the 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. These programs reduce, but do not eliminate, the impact of currency exchange 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 $75 million as of December 26, 2015 (less than $50 million as of December 27, 2014).

### Interest Rates

We generally hedge interest rate risks of fixed-rate debt investments with interest rate swaps, and we may elect to hedge interest rate risks of our indebtedness. Gains and losses on these instruments are generally offset by corresponding losses and gains on the related hedging instruments.

We are exposed to interest rate risk related to our investment portfolio and debt issuances. 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 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 $15 million as of December 26, 2015 (an increase of approximately $10 million as of December 27, 2014). After taking into account interest rate and currency swaps, a hypothetical decrease in interest rates of up to 1.0% would have resulted in an increase in the fair value of our indebtedness of approximately $1.6 billion as of December 26, 2015 (an increase of approximately $1.0 billion as of December 27, 2014). The increase from December 27, 2014 was primarily driven by the inclusion of $9.5 billion of senior unsecured notes issued in Q3 and Q4 2015. 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. We typically do not attempt to reduce or eliminate our equity market exposure through hedging activities at the inception of our investments. Before we enter into hedge arrangements, we evaluate legal, market, and economic factors, as well as the expected timing of disposal, to determine whether hedging is appropriate. Our equity market risk management program may include equity derivatives with or without hedge accounting designation that utilize warrants, equity options, or other equity derivatives.

We also utilize total return swaps to offset changes in liabilities related to the equity market risks of certain deferred compensation arrangements. Gains and losses from changes in fair value of these total return swaps are generally offset by the losses and gains on the related liabilities.