

PART I

ITEM 1. BUSINESS

Company Overview

We design and manufacture advanced integrated digital technology platforms. A platform consists of a microprocessor and chipset, and may be enhanced by additional hardware, software, and services. We sell these platforms primarily to original equipment manufacturers (OEMs), original design manufacturers (ODMs), and industrial and communications equipment manufacturers in the computing and communications industries. Our platforms are used to deliver a wide range of computing experiences in notebooks (including Ultrabook™ devices), 2 in 1 systems, desktops, servers, tablets, smartphones, and the Internet of Things (including wearables, transportation systems, and retail devices). We also develop and sell software and services primarily focused on security and technology integration. We were incorporated in California in 1968 and reincorporated in Delaware in 1989.

Company Strategy

Our vision is if it is smart and connected, it is best with Intel. As a result, we offer complete and connected computing solutions, both hardware and software, and continue to drive "Moore's Law." Over time, the number of devices connected to the Internet and to one another has grown from hundreds of millions to billions. This number continues to grow and the variety of devices also continues to increase. The combination of embedding computing into devices and connecting them to the Internet, known as the Internet of Things, as well as a build-out of the cloud infrastructure supporting these devices, is driving fundamental changes in the computing industry. As a result, we are transforming our primary focus from the design and manufacture of semiconductor chips for personal computers (PCs) and servers to the delivery of more complete platform solutions consisting of hardware and software platforms and supporting services. These solutions span the compute continuum, from high-performance computing systems running trillions of operations per second to embedded applications consuming milliwatts of power. Additionally, computing is becoming an increasingly mobile, personal, and ubiquitous experience. End users value smart devices that connect seamlessly and securely to the Internet and to each other. We enable this experience by innovating around energy-efficient performance, connectivity, and security.

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

- relentless pursuit of Moore's Law to maximize and extend our manufacturing technology leadership;
- strive to ensure that Intel® technology is the best choice across the compute continuum, including PCs, data centers, ultra-mobile devices, and the Internet of Things;
- expand platforms into adjacent market segments to bring compelling new System-on-Chip (SoC) solutions and user experiences to ultra-mobile form factors including tablets and smartphones, as well as PC platforms (including Ultrabook devices, 2 in 1 systems, and all-in-ones), data center applications, and the Internet of Things (including wearables, transportation systems, and retail devices);
- increase the utilization of our investments in intellectual property and research and development (R&D) across all market segments;
- be the platform of choice for any operating system;
- expand data center, security, and big data analytics;
- scale our manufacturing capabilities into foundry; and
- strive to reduce the environmental footprint of our products and operations as well as be an asset to the communities we work in.

We use our core assets to meet these objectives. We believe that applying our core assets to our key objectives provides us with the scale, capacity, and global reach to establish new technologies and respond to customers' needs quickly. Our core assets and key objectives include the following:

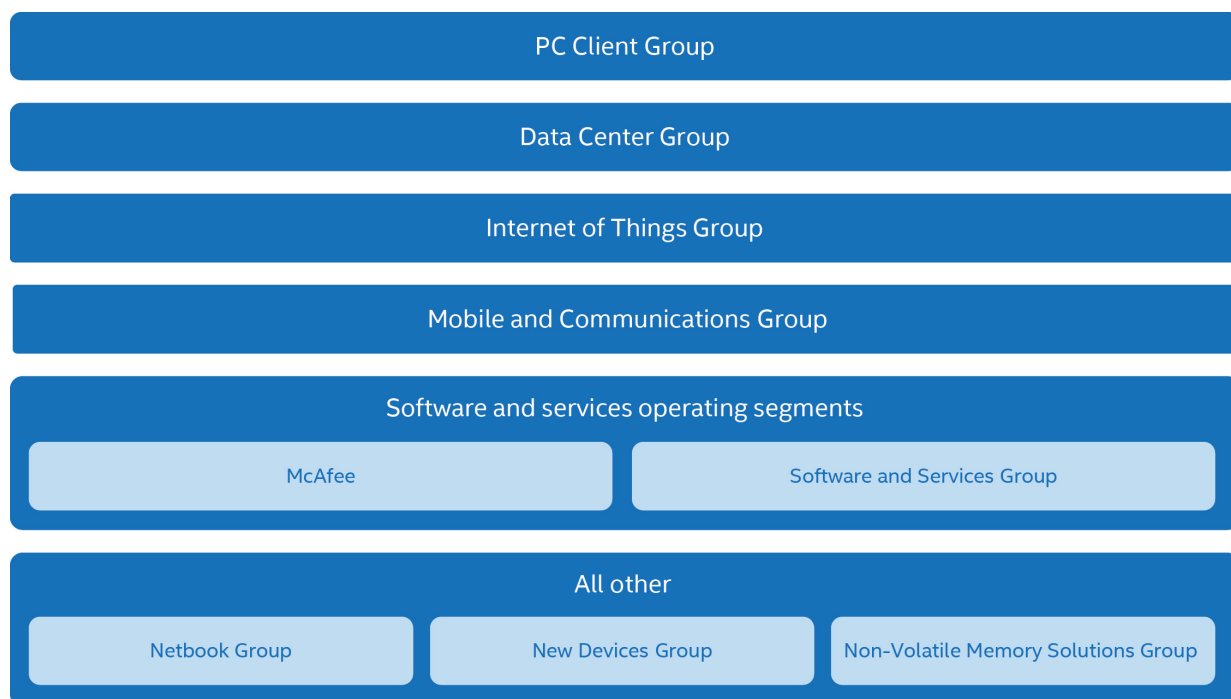
- *Silicon and Manufacturing Technology Leadership.* We have long been a leader in silicon process technology and manufacturing, and we aim to continue our lead through investment and innovation in this critical area. Moore's Law predicted that transistor density on integrated circuits would double about every two years. We continue executing to Moore's Law by enabling new devices with higher functionality and complexity while controlling power, cost, and size. In keeping with Moore's Law, we drive a regular and predictable upgrade cycle—introducing a new microarchitecture approximately every two to three years and ramping the next generation of silicon process technology in the intervening periods. We refer to this as our "tick-tock" technology development cadence. Through this cycle, we continue to push progress by designing and putting transistor innovations into high-volume production. We aim to have the best process technology, and unlike many semiconductor companies, we primarily manufacture our products in our own facilities. This in-house manufacturing capability enables us to optimize performance, shorten our time to market, and scale new products more rapidly. We believe this competitive advantage will be extended in the future as the costs to build leading-edge fabrication facilities increase, and as fewer semiconductor companies will be able to combine platform design and manufacturing.
- *Architecture and Platforms.* We are developing a wide range of solutions for devices that span the compute continuum and allow for computing experiences in notebooks, desktops, servers, tablets, smartphones, and the Internet of Things. We believe that users want consistent computing experiences and interoperable devices and that users and developers value consistency of architecture. This provides a common framework that results in shortened time-to-market, increased innovation, and the ability to leverage technologies across multiple form factors. We believe that we can meet the needs of users and developers to offer complete solutions across the compute continuum through our partnership with the industry on open, standards-based platform innovation around Intel® architecture. We continue to invest in improving Intel architecture to deliver increased value to our customers and expand the capabilities of the architecture in adjacent market segments. For example, we focus on delivering improved energy-efficient performance, which involves balancing higher performance with the lowest power. In addition, we are focusing on perceptual computing, which brings exciting experiences through devices that sense, perceive, and interact with the user's actions.
- *Software and Services.* We offer software and services that provide solutions through a combination of hardware and software for consumer and corporate environments. Additionally, we seek to enable and advance the computing ecosystem by providing development tools and support to help software developers create software applications that take advantage of our platforms. We seek to expedite growth in various market segments, such as the embedded market segment and big data analytics, through our software offerings. We continue to collaborate with companies to develop software platforms that are optimized for Intel® processors, support multiple hardware architectures, and operating systems.
- *Security.* Through our expertise in hardware and software, we are able to embed security into many facets of computing and offer proactive solutions and services to help secure the world's most critical systems and networks. We protect consumers and businesses of all sizes, and bring unique hardware, software, and end-to-end security solutions to the market to help enable increased protection against ever-evolving security risks.
- *Customer Orientation.* We focus on providing compelling user experiences by developing our next generation of products based on customer needs and expectations. In turn, our products help enable the design and development of new user experiences, form factors, and usage models for businesses and consumers. For example, we enhance the customer computing experience by providing Intel® RealSense™ technology, wireless charging, and password elimination. We offer platforms that incorporate various components and capabilities designed and configured to work together to provide an optimized solution that customers can easily integrate into their end products. Additionally, we promote industry standards that we believe will yield innovation and improved technologies for users.

- *Strategic Investments.* We make investments in companies around the world that we believe will further our vision, mission, and strategic objectives: support our key business initiatives; and generate financial returns. Our investments—including those made through Intel Capital—generally focus on companies and initiatives that we believe will stimulate growth in the digital economy, create new business opportunities for Intel, and expand global markets for our products. In 2014, we completed an investment in Cloudera, Inc. (Cloudera) to bring big data analytics into the mainstream through the joining of Cloudera's software platform and our data center architecture based on Intel® Xeon® processors. Additionally, we plan to continue to purchase and license intellectual property to support our current and expanding business.
- *Corporate Stewardship.* We are committed to developing energy-efficient technology solutions that can be used to address major global problems while reducing our environmental impact. We have led the industry in the journey to produce products that are free of conflict minerals, and have made our learnings from this journey open to others in the industry. We also believe that creating a fully diverse and inclusive workplace is fundamental to how we deliver business results. To this end in January 2015, our Chief Executive Officer, Brian Krzanich, announced the Diversity in Technology initiative and a goal to achieve full representation of women and under-represented minorities at Intel by 2020. We are also committed to empowering people and expanding economic opportunity through education and technology, driven by our corporate and Intel Foundation programs, policy leadership, and collaborative engagements. In addition, we strive to cultivate a work environment in which engaged, energized employees can thrive in their jobs and in their communities.

Our continued investment in developing our assets and execution in key objectives are intended to help strengthen our competitive position as we enter and expand into adjacent market segments, such as tablets, smartphones, and the Internet of Things. These market segments change rapidly, and we need to adapt to new environments. A key characteristic of these adjacent market segments is low-power consumption based on SoC products. We are making significant investments in this area with the accelerated development of our SoC solutions based on the 64-bit Intel® Atom™ microarchitecture and Intel® Quark™ technology. We are also optimizing our server products for energy-efficient performance, as we believe that increased Internet traffic and the use of ultra-mobile devices, the Internet of Things, and data center applications have created the need for improved data center infrastructure and energy efficiency.

Business Organization

In Q1 2014, we made certain changes to our organizational structure to align with our critical objectives. As of December 27, 2014, we managed our business through the following operating segments:



For a description of our operating segments, see "Note 26: Operating Segments and Geographic Information" in Part II, Item 8 of this Form 10-K.

Products

Platforms

We offer platforms that incorporate various components and technologies, including a microprocessor and chipset, a stand-alone SoC, or a multichip package. A platform may be enhanced by additional hardware, software, and services.

A microprocessor—the central processing unit (CPU) of a computer system—processes system data and controls other devices in the system. We offer microprocessors with one or multiple processor cores. Multi-core microprocessors can enable improved multitasking and energy-efficient performance by distributing computing tasks across two or more cores. In addition, our Intel® Core™ processor families integrate graphics functionality onto the processor die.

A chipset sends data between the microprocessor and input, display, and storage devices, such as the keyboard, mouse, monitor, hard drive or solid-state drive, and optical disc drives. Chipsets extend the audio, video, and other capabilities of many systems and perform essential logic functions, such as balancing the performance of the system and removing bottlenecks.

We offer and continue to develop SoC products that integrate our CPUs with other system components, such as graphics, audio, imaging, communication and connectivity, and video, onto a single chip. SoC products are designed to reduce total cost of ownership, provide improved performance due to higher integration and the lowest power, and enable ultra-mobile form factors such as tablets, smartphones, Ultrabook devices, and 2 in 1 systems, as well as notebooks, desktops, data center products, and the Internet of Things.

We offer a multichip package that integrates the chipset on one die with the CPU and graphics on another die, connected via a lower-power, on-package interface. Similar to an SoC, the multichip package can provide improved performance due to higher integration coupled with the lowest power consumption, which enables smaller form factors. In 2014, we introduced our 5th generation Intel Core processor, code-named "Broadwell."

We also offer features designed to improve our platform capabilities. For example, Intel® vPro™ technology is a solution for manageability, security, and business user experiences in the notebook, desktop, and 2 in 1 systems market segments. Intel vPro technology is designed to provide businesses with increased manageability, upgradeability, energy-efficient performance, and security while lowering the total cost of ownership. We also offer Intel® Iris™ technology, which provides enhanced integrated graphics for our 4th and 5th generation Intel Core processors. In 2014, we announced Intel RealSense technology, which includes software and depth cameras that enable more natural and intuitive interaction with personal computing devices.

We offer a range of platforms based upon the following microprocessors:



Intel® Quark™ Processor/SoC

Designed with a level of integration for applications where lower power, size, and cost take priority including wearable technologies and the next generation of intelligent, connected devices



Intel® Atom™ Processor

Designed to deliver performance and battery life for mobility in tablets, 2 in 1 systems, and smartphones as well as power-efficiency in microservers



Intel® Pentium® Processor

Designed to deliver quality, reliability, and performance for work and play



Intel® Celeron® Processor

Designed to deliver quality, reliability, and performance for work and play



Intel® Core™ M Processor

Designed to deliver responsive performance and battery-life to new tablet-thin, fanless devices



Intel® Core™ i3 Processor

Designed to deliver responsive performance and built-in security to play, create, and entertain



Intel® Core™ i5 Processor

Designed for visuals and adaptive performance on-demand with Intel® Turbo Boost technology and built-in security features to safely work, play, create, and entertain



Intel® Core™ i7 Processor

Designed for visuals and maximized performance on-demand with Intel® Turbo Boost technology and built-in security features for the most demanding applications including high-performance gaming, HD video creation, and consumption



Intel® Xeon® Processor

Designed to deliver performance, energy efficiency, and cost effective solutions that scale to address compute, network, and storage requirements



Intel® Xeon Phi™ Processor

Designed to deliver performance for parallel workloads



Intel® Itanium® Processor

Designed to deliver mainframe reliability and enterprise performance on a platform that shares common characteristics of the rest of the data center

McAfee, Inc.

McAfee, Inc. (McAfee) offers software and hardware products that provide security solutions designed to protect systems in consumer, mobile, and corporate environments from malicious virus attacks and loss of data. McAfee's products include software solutions for end-point security, network and content security, risk and compliance, and consumer and mobile security and privacy.

Communication and Connectivity

Our communication and connectivity offerings for tablets, smartphones, and other connected devices include baseband processors, radio frequency transceivers, and power management integrated circuits. We also offer comprehensive smartphone, tablet, and Internet of Things solutions, which include multimode Long Term Evolution (LTE*) modems, *Bluetooth*® and Global Positioning System (GPS) receivers, software solutions, customization, and essential interoperability tests.

Non-Volatile Memory Solutions

We offer NAND flash memory products primarily used in solid-state drives. Our NAND flash memory products are manufactured by IM Flash Technologies, LLC (IMFT) and Micron Technology, Inc. (Micron).

Intel Custom Foundry

We offer manufacturing technologies and design services for our customers. Our foundry offerings include full custom silicon, packaging, and manufacturing test services. We also provide semi-custom services to tailor Intel architecture-based solutions with customers' intellectual property blocks. To enable our customers to use our custom foundry services, we offer industry-standard design kits, intellectual property blocks, and design services.

Products and Product Strategy by Operating Segment

Our **PC Client Group** operating segment offers products that are incorporated in notebook (including Ultrabook devices), 2 in 1 systems, and desktop computers for consumers and businesses. In 2014, we introduced the 5th generation Intel Core processor family for use in 2 in 1 systems, and we will soon release the 5th generation Intel Core processors for other notebooks. These processors use 14-nanometer (nm) transistors and our Tri-Gate transistor technology. Our Tri-Gate transistor technology extends Moore's Law by providing improved performance and energy efficiency. In combination, these enhancements can provide significant power savings and performance gains when compared to previous-generation technologies.

Notebook

Our strategy for the notebook computing market segment is to offer notebook technologies designed to bring exciting new user experiences to life and improve performance, battery life, wireless connectivity, manageability, and security. In addition, we are designing for innovative smaller, lighter, and thinner form factors. We believe that our 5th generation Intel Core processors will continue to deliver increasing levels of performance, graphics, and energy efficiency, and will provide our customers and end users with multiple choices in operating system compatibility, processor cores, graphic performance, and battery life.

We have worked to help our customers develop a new class of personal computing devices that includes Ultrabook devices and 2 in 1 systems. These computers combine the energy-efficient performance and capabilities of today's notebooks and tablets with enhanced graphics and improved user interfaces such as touch and voice in a thin, light form factor that is highly responsive and secure, and that can seamlessly connect to the Internet. In 2014, we introduced the Intel® Core™ M processor, our first commercially available 14nm processor designed to enable responsive performance and improved battery life for new tablet-thin, fanless devices. We believe the renewed innovation in the PC industry that we fostered with Ultrabook devices and expanded to 2 in 1 systems will continue.

Desktop

Our strategy for the desktop computing market segment is to offer exciting new user experiences and products that provide increased manageability, security, and energy-efficient performance. We are also focused on lowering the total cost of ownership for businesses. The desktop computing market segment includes all-in-one desktop products, which combine traditionally separate desktop components into one form factor. Additionally, all-in-one computers have transformed into portable and flexible form factors that offer users increased portability and new multi-user applications and uses. For desktop consumers, we also focus on the design of products for high-end enthusiast PCs and mainstream PCs with rapidly increasing audio and media capabilities.

Our **Data Center Group** operating segment offers products designed to provide leading energy-efficient performance for all server, network, and storage platforms. In addition, the Data Center Group (DCG) focuses on lowering the total cost of ownership and on other specific optimizations for the enterprise, cloud, communications infrastructure, and technical computing segments. In 2014, we launched our next-generation Intel Xeon processor E5 family platform for our 22nm process technology. The 22nm Intel Xeon processors provide improved performance and better power consumption across server, network, and storage platforms. We also launched our next-generation Intel Xeon processor E7 family. These products are targeted at platforms requiring four or more CPUs and industry leading reliability, availability, and serviceability. DCG is continuing to ramp the Intel® Xeon Phi™ coprocessor with 60 or more high-performance, low-power Intel processor cores. The Intel Xeon Phi coprocessors are positioned to boost the power of the world's most advanced supercomputers, enabling trillions of calculations per second.

Our **Internet of Things Group** operating segment offers platforms for customers to design products for the retail, transportation, industrial, and buildings and home market segments. In addition, the Internet of Things Group (IOTG) focuses on establishing an end-to-end secure and manageable architecture that captures actionable information for consumers. In 2014, we shipped our first Intel Quark SoC 32-bit microprocessor. We also launched the Intel® Edison development platform, which is designed to empower the next generation of wearables, robotics, and other small devices connecting, creating, and consuming data.

Our **Mobile and Communications Group** operating segment offers products that incorporate hardware, software, and connectivity for tablets, smartphones, and other mobile devices. In addition, our Mobile and Communications Group (MCG) focuses on a broad range of wireless connectivity options by combining Intel® WiFi technology with our 2G and 3G technologies, and creating a path to accelerate industry adoption of 4G LTE. In 2014, we began selling our second-generation LTE solution, featuring CAT6 and carrier aggregation. In addition, MCG developed the first Intel Atom SoC application processor integrated with leading global 3G modem, code-named "SoFIA." SoFIA is designed for the entry and value mobile devices market segment.

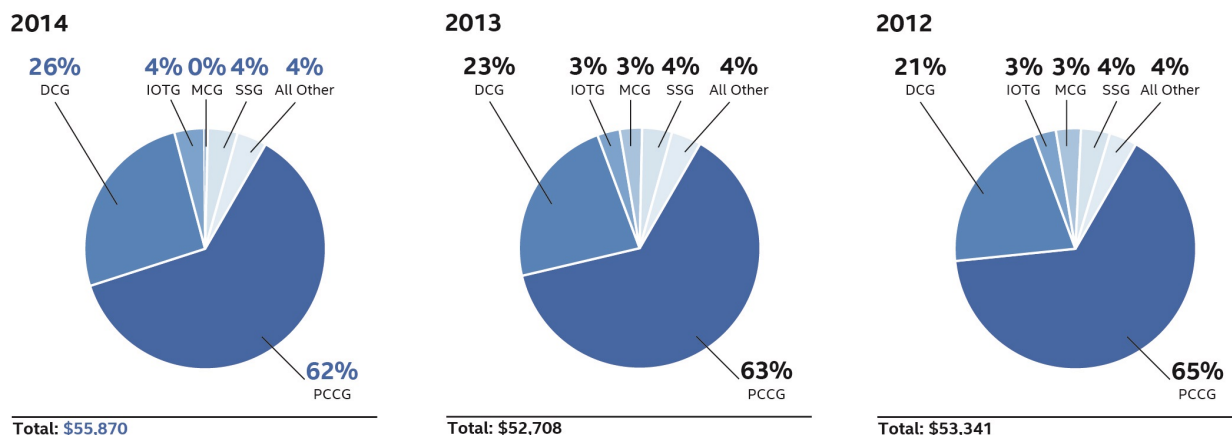
Our **software and services operating segments** seek to create differentiated user experiences on Intel®-based platforms. We differentiate by combining Intel platform features and enhanced software and services. Our three primary initiatives are:

- enabling platforms that can be used across multiple operating systems, applications, and services across all Intel products;
- optimizing features and performance by enabling the software ecosystem to quickly take advantage of new platform features and capabilities; and
- enable a more secure online experience by using software, services, and hardware to deliver comprehensive solutions, such as our McAfee LiveSafe* service, which provides a comprehensive security suite that offers consumer protection across a range of devices such as PCs, tablets, and smartphones.

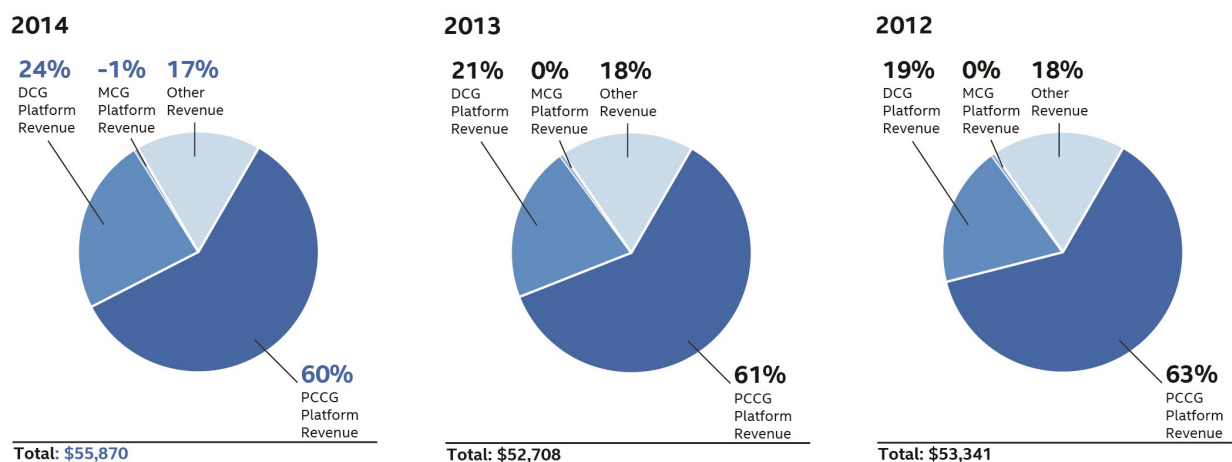
Revenue by Major Operating Segment

Net revenue for the PC Client Group (PCCG) operating segment, the Data Center Group (DCG) operating segment, the Internet of Things Group (IOTG) operating segment, the Mobile and Communications Group (MCG) operating segment, and the aggregated software and services (SSG) operating segments is presented as a percentage of our consolidated net revenue. SSG includes McAfee and the Software and Services Group operating segment. The "all other" category consists primarily of revenue from the Non-Volatile Memory Solutions Group, the Netbook Group, and the New Devices Group operating segments.

Percentage of Revenue by Major Operating Segment (Dollars in Millions)



Percentage of Revenue by Principal Product from Reportable Segments* (Dollars in Millions)



*Note images are not to scale

Competition

The computing industry continuously evolves with new and enhanced technologies and products from existing and new providers. The marketplace can change quickly in response to the introduction of such technologies and products and other factors such as changes in customer and end-user requirements, expectations, and preferences. As technologies evolve and new market segments emerge, the boundaries between the market segments that we compete in are also subject to change.

Intel faces significant competition in the development and market acceptance of our products in this environment. Our platforms, based on Intel architecture, are positioned to compete across the compute continuum, from the lowest power and ultra-mobile devices to the most powerful data center servers. Our platforms, which have integrated hardware and software, offer customers benefits such as ease of use, savings in total cost of ownership, and the ability to scale systems to accommodate increased usage.

Competitors

We compete against other companies that make and sell platforms, other silicon components, and software to businesses that build and sell computing and communications devices to end users. Our competitors also include companies that sell goods and services to businesses that utilize them for their internal and/or customer-facing processes (e.g., businesses running large data centers). In addition, we face competition from OEMs, ODMs, and other industrial and communications equipment manufacturers that, to some degree, choose to vertically integrate their own proprietary semiconductor and software assets. By doing so, these competitors may be attempting to offer greater differentiation in their products and to increase their share of the profits for each finished product they sell. Continuing changes in industry participants through, for example, acquisitions or business collaborations could also have a significant impact on our competitive position.

We are a leading provider in the PC and data center segments, where we face existing and emerging competition. In the PC market segment, ultra-mobile devices—such as tablets and smartphones offered by numerous vendors— have become significant competitors to PCs for many usages. Most of these small devices currently use applications processors based on the ARM* architecture; feature low-power, long battery-life operation; and are built in SoC formats that integrate numerous functions on one chip.

In the data center segment, our data center platforms face emerging competition from companies using ARM architecture or other technologies. Internet cloud computing and high-performance computing are areas of significant targeted growth for us in the data center segment, and we face strong competition in these market segments.

We are a relatively new entrant to the segments for tablets, smartphones, and similar ultra-mobile devices. We have adjusted our product roadmaps to emphasize the development of low-power SoC chips for such devices, as well the Internet of Things.

In the Internet of Things market segment, we have a long-standing position as a supplier of components and software for embedded products, and this marketplace is significantly expanding with increasing types and numbers of smart and connected devices for industrial, commercial, and consumer uses. In this growing market segment, we face numerous large and small incumbent competitors as well as new entrants that use ARM architecture and other operating systems and software.

McAfee is a major provider of digital security products and services to businesses and consumers. Numerous competitors offer security products and services, and we seek to offer competitive differentiation by integrating hardware and software security features in many of our offerings and to have security offerings in numerous market segments, including mobile and embedded devices and for data centers.

Our products primarily compete based on performance, energy efficiency, integration, innovative design, features, price, quality, reliability, brand recognition, and availability. The importance of these factors will vary by the type of end system for the products. For example, performance might be among the most important factors for our products for data center servers, while price and integration might be among the most important factors for our products for tablets, smartphones, and other mobile devices.

Competitive Advantages

Our products' ability to operate on multiple operating systems in end-user products and platforms operated or sold by third parties, including OEMs, is a key competitive advantage. We seek to optimize our products for multiple operating systems and invest substantial resources working with third parties to do so, but such investments are risky given that it is not clear which products will succeed in the market.

Another key competitive advantage is our market lead in transitioning to the next-generation process technology and bringing products to market using such technology. We have products in the market manufactured using our 14nm process technology and are currently working on the development of our next-generation 10nm process technology. We believe that these transitions will offer significant improvements in one or more of the following areas: performance, new features, energy efficiency, and cost.

Moreover, the combination of our network of manufacturing and assembly and test facilities with our global architecture design teams is another important competitive advantage. We have made significant capital and R&D investments into this integrated manufacturing network, which enables us to have more direct control over our processes, quality control, product cost, production timing, performance, power consumption, and manufacturing yield. The increased cost of constructing new fabrication facilities supporting smaller transistor geometries and larger wafers has led to a smaller pool of companies that can afford to build and equip leading-edge manufacturing facilities. Most of our competitors rely on third-party foundries and subcontractors such as Taiwan Semiconductor Manufacturing Company, Ltd. and GlobalFoundries Inc. for manufacturing and assembly and test needs. We provide foundry services as an alternative to such foundries.

Manufacturing and Assembly and Test

As of December 27, 2014, 70% of our wafer fabrication, including microprocessors and chipsets, was conducted within the U.S. at our facilities in Arizona, New Mexico, Oregon, and Massachusetts. Our Massachusetts fabrication facility is our last manufacturing facility on 200 millimeter (mm) wafers and is expected to cease production in Q1 2015. The remaining 30% of our wafer fabrication was conducted outside the U.S. at our facilities in Israel and China. Our fabrication facility in Ireland is currently transitioning to our 14nm process technology, with manufacturing expected to ramp in the second half of 2015. Wafer fabrication conducted within and outside the U.S. may be impacted by the timing of a facility's transition to a newer process technology, as well as a facility's capacity utilization.

As of December 27, 2014, we manufactured our products in wafer fabrication facilities at the following locations:

Products	Wafer Size	Process Technology	Locations
Microprocessors	300mm	14nm	Arizona, Oregon
Microprocessors	300mm	22nm	Israel, Arizona, Oregon
Microprocessors and chipsets	300mm	32nm	New Mexico
Microprocessors	300mm	45nm	New Mexico
Chipsets	300mm	65nm	China
Chipsets and other products	300mm	90nm	China
Chipsets	200mm	130nm	Massachusetts

As of December 27, 2014, a substantial majority of our microprocessors were manufactured on 300mm wafers using our 14nm, 22nm, and 32nm process technology. As we move to each succeeding generation of manufacturing process technology, we incur significant start-up costs to prepare each factory for manufacturing. However, continuing to advance our process technology provides benefits that we believe justify these costs. The benefits of moving to each succeeding generation of manufacturing process technology can include using less space per transistor, reducing heat output from each transistor, and increasing the number of integrated features on each chip. These advancements can result in new devices with higher functionality and complexity while controlling power, cost, and size. In addition, with each shift to a new process technology, we are able to produce more microprocessors per square foot of our wafer fabrication facilities. The costs to develop our process technology are significantly less than adding capacity by building additional wafer fabrication facilities using older process technology.

We use third-party foundries to manufacture wafers for certain components, including communication and connectivity products. In 2014, we qualified our first SoC application processor and baseband 3G solution, code-named "SoFIA," which will be fabricated by a third-party foundry. In addition, we primarily use subcontractors to manufacture board-level products and systems. We purchase certain communication and connectivity products from external vendors primarily in the Asia-Pacific region.

Following the manufacturing process, the majority of our components are subject to assembly and test. We perform our components assembly and test at facilities in Malaysia, China, and Vietnam. Our assembly and test facility in Costa Rica ceased production in Q4 2014. To augment capacity, we use subcontractors to perform assembly and test of certain products, primarily chipsets and communication and connectivity products.

Our NAND flash memory products are manufactured by IMFT and Micron using 20nm or 25nm process technology, and assembly and test of these products is performed by Micron and other external subcontractors. For further information, see "Note 5: Cash and Investments" in Part II, Item 8 of this Form 10-K.

Our employment and operating practices are consistent with, and we expect our suppliers and subcontractors to abide by, local country law. Intel expects all suppliers to comply with our Code of Conduct and the Electronic Industry Citizenship Coalition (EICC) Code of Conduct, both of which set standards that address the rights of workers to safe and healthy working conditions, environmental responsibility, compliance with privacy and data security obligations, and compliance with applicable laws.

We have thousands of suppliers, including subcontractors, providing our various materials, equipment, and service needs. We set expectations for supplier performance and reinforce those expectations with periodic assessments and audits. We communicate those expectations to our suppliers regularly and work with them to implement improvements when necessary. Where possible, we seek to have several sources of supply for all of these materials and resources, but we may rely on a single or limited number of suppliers, or upon suppliers in a single country. In those cases, we develop and implement plans and actions to reduce the exposure that would result from a disruption in supply. We have entered into long-term contracts with certain suppliers to help ensure a stable supply of silicon and semiconductor manufacturing tools.

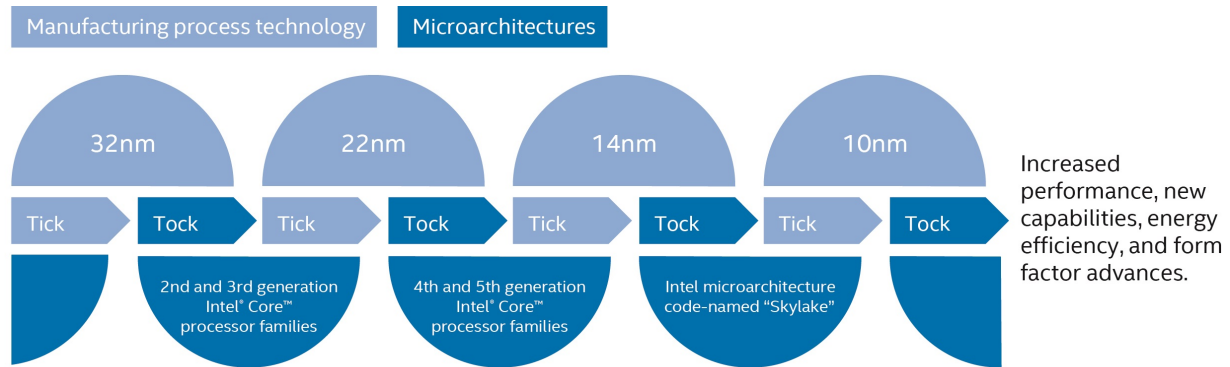
Our products are typically manufactured at multiple Intel facilities around the world or by subcontractors. However, some products are manufactured in only one Intel or subcontractor facility, and we seek to implement action plans to reduce the exposure that would result from a disruption at any such facility. See "Risk Factors" in Part I, Item 1A of this Form 10-K.

Research and Development

We are committed to investing in world-class technology development, particularly in the design and manufacture of integrated circuits. R&D expenditures were \$11.5 billion in 2014 (\$10.6 billion in 2013 and \$10.1 billion in 2012).

Our R&D activities are directed toward the delivery of solutions consisting of hardware and software platforms and supporting services across a wide range of computing devices. We are focused on developing the technology innovations that we believe will deliver our next generation of products, which will in turn enable new form factors and usage models for businesses and consumers. We focus our R&D efforts on advanced computing technologies, developing new microarchitectures, advancing our silicon manufacturing process technology, delivering the next generation of platforms, improving our platform initiatives, developing new solutions in emerging technologies including memory and the Internet of Things, as well as developing software solutions and tools. Our R&D efforts are intended to enable new levels of performance and address areas such as energy efficiency, system-level integration, security, scalability for multi-core architectures, system manageability, and ease of use.

As part of our R&D efforts, we plan to introduce a new Intel Core microarchitecture for desktops, notebooks (including Ultrabook devices and 2 in 1 systems), and Intel Xeon processors approximately every two to three years and ramping the next generation of silicon process technology in the intervening periods. We refer to this as our "tick-tock" technology development cadence, as illustrated below.



Advances in our silicon technology have enabled us to continue making Moore's Law a reality. In 2014, we began manufacturing our 5th generation Intel Core processor family using our 14nm process technology. We are currently developing our next-generation Intel® microarchitecture, code-named "Skylake," using our 14nm process technology, which we expect to release in the second half of 2015. We are also developing 10nm manufacturing process technology, our next-generation process technology.

We have continued expanding on the advances anticipated by Moore's Law by bringing new capabilities into silicon and producing new products optimized for a wider variety of applications. We have accelerated the Intel Atom processor-based SoC roadmap for ultra-mobile form factors, including tablets and smartphones, as well as notebooks (including Ultrabook devices and 2 in 1 systems), the Internet of Things, and data center applications, from 32nm through 22nm to 14nm. Our Intel Atom processors for ultra-mobile form factors and the Internet of Things are transitioning to the same process technology as our leading-edge products. We expect that this acceleration will result in a significant reduction in transistor leakage, lower active power, and an increase in transistor density to enable more powerful, feature-rich smartphones and tablets with a longer battery life. The Intel Quark SoC is an ultra-low-power and low-cost architecture designed for the Internet of Things, from industrial machines to wearable devices.

With our continued focus on silicon and manufacturing technology leadership, we entered into a series of agreements with ASML Holding N.V. (ASML) in 2012, certain of which were amended in 2014 to further define the commercial terms between the parties. These amended agreements, in which Intel agreed to provide R&D funding over five years, are intended to accelerate the development of extreme ultraviolet (EUV) lithography projects and deep ultraviolet immersion lithography projects, including generic developments applicable to both 300mm and 450mm.

Our R&D activities range from designing and developing new products and manufacturing processes to researching future technologies and products. We continue to make significant R&D investments in the development of SoCs to enable growth in ultra-mobile form factors. In addition, we continue to make significant investments in communications and connectivity for tablets, smartphones, and other connected devices, including multimode LTE modems. Our investment in Cloudera, completed in 2014, is evidence of our drive to bring big data analytics to the mainstream market through the joining of Cloudera's software platform and our data center architecture based on Intel Xeon processors. We also continue to invest in leading-edge foundry platforms and ecosystem partner development, graphics, high-performance computing, and communication and connectivity.

Our R&D model is based on a global organization that emphasizes a collaborative approach to identifying and developing new technologies, leading standards initiatives, and influencing regulatory policies to accelerate the adoption of new technologies, including joint pathfinding conducted between researchers at Intel Labs and our business groups. We centrally manage key cross-business group product initiatives to align and prioritize our R&D activities across these groups. In addition, we may augment our R&D activities by investing in companies or entering into agreements with companies that have similar R&D focus areas, as well as directly purchasing or licensing technology applicable to our R&D initiatives. To drive innovation and gain efficiencies, we intend to utilize our investments in intellectual property and R&D across our market segments.

Employees

As of December 27, 2014, we had 106,700 employees worldwide, with approximately 51% of those employees located in the U.S.

Sales and Marketing

Customers

We sell our products primarily to OEMs and ODMs. ODMs provide design and manufacturing services to branded and unbranded private-label resellers. In addition, we sell our products to other manufacturers, including makers of a wide range of industrial and communications equipment. Our customers also include those who buy PC components and our other products through distributor, reseller, retail, and OEM channels throughout the world.

Our worldwide reseller sales channel consists of thousands of indirect customers—systems builders that purchase Intel® microprocessors and other products from our distributors. We have a program that allows distributors to sell our microprocessors and other products in small quantities to customers of systems builders; our microprocessors and other products are also available in direct retail outlets.

In 2014, Hewlett-Packard Company (HP) accounted for 18% of our net revenue (17% in 2013 and 18% in 2012), Dell Inc. (Dell) accounted for 16% of our net revenue (15% in 2013 and 14% in 2012), and Lenovo Group Limited (Lenovo) accounted for 12% of our net revenue (12% in 2013 and 11% in 2012). No other customer accounted for more than 10% of our net revenue during such periods. For information about net revenue and operating income by operating segment, and net revenue from unaffiliated customers by country, see "Note 26: Operating Segments and Geographic Information" in Part II, Item 8 of this Form 10-K.

Sales Arrangements

Our products are sold through sales offices throughout the world. Sales of our products are frequently made via purchase order acknowledgments that contain standard terms and conditions covering matters such as pricing, payment terms, and warranties, as well as indemnities for issues specific to our products, such as patent and copyright indemnities. From time to time, we may enter into additional agreements with customers covering, for example, changes from our standard terms and conditions, new product development and marketing, private-label branding, and other matters. Our sales are typically made using electronic and web-based processes that allow the customer to review inventory availability and track the progress of specific goods ordered. Pricing on particular products may vary based on volumes ordered and other factors. We also offer discounts, rebates, and other incentives to customers to increase acceptance of our products and technology.

Our products are typically shipped under terms that transfer title to the customer, even in arrangements for which the recognition of revenue and related cost of sales is deferred. Our standard terms and conditions of sale typically provide that payment is due at a later date, generally 30 days after shipment or delivery. We assess credit risk through quantitative and qualitative analysis. From this analysis, we establish shipping and credit limits, and determine whether we will seek to use one or more credit support devices, such as obtaining a parent guarantee, standby letter of credit, or credit insurance. Credit losses may still be incurred due to bankruptcy, fraud, or other failure of the customer to pay. For information about our allowance for doubtful receivables, see "Schedule II—Valuation and Qualifying Accounts" in Part IV of this Form 10-K.

Our sales to distributors are typically made under agreements allowing for price protection on unsold merchandise and a right of return on stipulated quantities of unsold merchandise. Under the price protection program, we give distributors credits for the difference between the original price paid and the current price that we offer. Our products typically have no contractual limit on the amount of price protection, nor is there a limit on the time horizon under which price protection is granted. The right of return granted generally consists of a stock rotation program in which distributors are able to exchange certain products based on the number of qualified purchases made by the distributor. We have the option to grant credit for, repair, or replace defective products, and there is no contractual limit on the amount of credit that may be granted to a distributor for defective products.

Distribution

Distributors typically handle a wide variety of products, including those that compete with our products, and fill orders for many customers. Customers may place orders directly with us or through distributors. We have several distribution warehouses that are located in proximity to key customers.

Backlog

Over time, our larger customers have generally moved to lean-inventory or just-in-time operations rather than maintaining larger inventories of our products. As our customers continue to lower their inventories, our processes to fulfill their orders have evolved to meet their needs. As a result, our manufacturing production is based on estimates and advance non-binding commitments from customers as to future purchases. Our order backlog as of any particular date is a mix of these commitments and specific firm orders that are primarily made pursuant to standard purchase orders for delivery of products. Only a small portion of our orders are non-cancelable, and the dollar amount associated with the non-cancelable portion is not significant.

Seasonal Trends

Historically, our net revenue has typically been higher in the second half of the year than in the first half of the year, accelerating in the third quarter and peaking in the fourth quarter.

Marketing

Our global marketing objectives are to build a strong, well-known Intel corporate brand that connects with businesses and consumers, and to offer a limited number of meaningful and valuable brands in our portfolio to aid businesses and consumers in making informed choices about technology purchases. The Intel Core processor family and the Intel Quark, Intel Atom, Intel® Celeron®, Intel® Pentium®, Intel Xeon, Intel Xeon Phi, and Intel® Itanium® trademarks make up our processor brands.

We promote brand awareness and preference, and generate demand through our own direct marketing as well as through co-marketing programs. Our direct marketing activities primarily include advertising through digital and social media and television, as well as consumer and trade events, industry and consumer communications, and press relations. We market to consumer and business audiences, and focus on building awareness and generating demand for new form factors such as tablets, Ultrabook devices, and 2 in 1 systems powered by Intel. Our key messaging focuses on increased performance, improved energy efficiency, and other capabilities such as connectivity, communications, and security.

Purchases by customers often allow them to participate in cooperative advertising and marketing programs such as the Intel Inside® Program. This program broadens the reach of our brands beyond the scope of our own direct marketing. Through the Intel Inside Program, certain customers are licensed to place Intel logos on computing devices containing our microprocessors and processor technologies, and to use our brands in their marketing activities. The program includes a market development component that accrues funds based on purchases and partially reimburses customers for marketing activities for products featuring Intel brands, subject to customers meeting defined criteria. These marketing activities primarily include advertising through digital and social media and television, as well as press relations. We have also entered into joint marketing arrangements with certain customers.

Intellectual Property Rights and Licensing

Intel owns significant intellectual property (IP) and related IP rights around the world that relate to our products, services, R&D, and other activities and assets. Our IP portfolio includes patents, copyrights, trade secrets, trademarks, trade dress rights, and maskwork rights. We actively seek to protect our global IP rights and to deter unauthorized use of our IP and other assets. Such efforts can be difficult, however, particularly in countries that provide less protection to IP rights and in the absence of harmonized international IP standards. While our IP rights are important to our success, our business as a whole is not significantly dependent on any single patent, copyright, or other IP right. See "Risk Factors" in Part I, Item 1A, and "Note 25: Contingencies" in Part II, Item 8 of this Form 10-K.

We have obtained patents in the U.S. and other countries. Because of the fast pace of innovation and product development, and the comparative pace of governments' patenting processes, our products are often obsolete before the patents related to them expire; in some cases, our products may be obsolete before the patents related to them are granted. As we expand our products into new industries, we also seek to extend our patent development efforts to patent such products. In addition to developing patents based on our own R&D efforts, we purchase patents from third parties to supplement our patent portfolio. Established competitors in existing and new industries, as well as companies that purchase and enforce patents and other IP, may already have patents covering similar products. There is no assurance that we will be able to obtain patents covering our own products, or that we will be able to obtain licenses from other companies on favorable terms or at all.

The software that we distribute, including software embedded in our component-level and platform products, is entitled to copyright and other IP protection. To distinguish our products from our competitors' products, we have obtained trademarks and trade names for our products, and we maintain cooperative advertising programs with customers to promote our brands and to identify products containing genuine Intel components. We also protect details about our processes, products, and strategies as trade secrets, keeping confidential the information that we believe provides us with a competitive advantage.

Compliance with Environmental, Health, and Safety Regulations

Our compliance efforts focus on monitoring regulatory and resource trends and setting company-wide performance targets for key resources and emissions. These targets address several parameters, including product design; chemical, energy, and water use; waste recycling; the source of certain minerals used in our products; climate change; and emissions.

As a company, we focus on reducing natural resource use, the solid and chemical waste by-products of our manufacturing processes, and the environmental impact of our products. We currently use a variety of materials in our manufacturing process that have the potential to adversely impact the environment and are subject to a variety of environmental, health, and safety (EHS) laws and regulations. Over the past several years, we have significantly reduced the use of lead and halogenated flame retardants in our products and manufacturing processes.

We work with the U.S. Environmental Protection Agency (EPA), non-governmental organizations (NGOs), OEMs, and retailers to help manage e-waste (including electronic products nearing the end of their useful lives) and to promote recycling. The European Union requires producers of certain electrical and electronic equipment to develop programs that let consumers return products for recycling. Many U.S. states and countries in Latin America and Asia also have or are developing similar e-waste take-back laws. Although these laws are typically targeted at the end electronic product and not the component products that we manufacture, the inconsistency of many e-waste take-back laws and the lack of local e-waste management options in many areas pose a challenge for our compliance efforts.

We are an industry leader in our efforts to build ethical sourcing of minerals for our products, including "conflict minerals" from the Democratic Republic of the Congo (DRC) and adjoining countries. In 2013, we accomplished our goal to manufacture microprocessors that are DRC conflict-free for tantalum, tin, tungsten, and gold. We continue our work to establish DRC conflict-free supply chains for our company and our industry, and have set a new goal that all products currently on our roadmap for 2016 and beyond will be DRC conflict-free for these four minerals.

We seek to reduce our global greenhouse gas emissions by investing in energy conservation projects in our factories and working with suppliers to improve energy efficiency. We take a holistic approach to power management, addressing the challenge at the silicon, package, circuit, microarchitecture, macroarchitecture, platform, and software levels. We recognize that climate change may cause general economic risk. For further information on the risks of climate change, see "Risk Factors" in Part I, Item 1A of this Form 10-K. We see a potential for higher energy costs driven by climate change regulations. This could include items applied to utility companies that are passed along to customers, such as carbon taxes or costs associated with obtaining permits for our manufacturing operations, emission cap and trade programs, or renewable portfolio standards.

We are committed to sustainability and take a leadership position in promoting voluntary environmental initiatives and working proactively with governments, environmental groups, and industry to promote global environmental sustainability. We believe that technology will be fundamental to finding solutions to the world's environmental challenges, and we are joining forces with industry, business, and governments to find and promote ways that technology can be used as a tool to combat climate change.

We have been purchasing renewable energy at some of our major sites for several years. We purchase renewable energy certificates under a multi-year contract. This purchase has placed Intel at the top of the EPA's Green Power Partnership for the past seven years and is intended to help stimulate the market for green power, leading to additional generating capacity and, ultimately, lower costs.

Distribution of Company Information

Our Internet address is www.intel.com. We publish voluntary reports on our website that outline our performance with respect to corporate responsibility, including EHS compliance.

We use our Investor Relations website, www.intc.com, as a routine channel for distribution of important information, including news releases, analyst presentations, and financial information. We post filings on our website the same day they are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission (SEC), including our annual and quarterly reports on Forms 10-K and 10-Q and current reports on Form 8-K; our proxy statements; and any amendments to those reports or statements. We post our quarterly and annual earnings results on our Investor Relations website, www.intc.com/results.cfm, and do not distribute our financial results via a news wire service. All such postings and filings are available on our Investor Relations website free of charge. In addition, our Investor Relations website allows interested persons to sign up to automatically receive e-mail alerts when we post news releases and financial information. The SEC's website, www.sec.gov, contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The content on any website referred to in this Form 10-K is not incorporated by reference in this Form 10-K unless expressly noted.

Executive Officers of the Registrant

The following sets forth certain information with regard to our executive officers as of February 13, 2015 (ages are as of December 27, 2014):

Andy D. Bryant, age 64

- 2012 – present, Chairman of the Board
- 2011 – 2012, Vice Chairman of the Board, Executive VP, Technology, Manufacturing and Enterprise Services, Chief Administrative Officer
- 2009 – 2011, Executive VP, Technology, Manufacturing, and Enterprise Services, Chief Administrative Officer
- 2007 – 2009, Executive VP, Finance and Enterprise Services, Chief Administrative Officer
- 2001 – 2007, Executive VP, Chief Financial and Enterprise Services Officer
- Member of Intel Corporation Board of Directors
- Member of Columbia Sportswear Company Board of Directors
- Member of McKesson Corporation Board of Directors
- Joined Intel in 1981

William M. Holt, age 62

- 2013 – present, Executive VP, GM, Technology and Manufacturing Group
- 2006 – 2013, Senior VP, GM, Technology and Manufacturing Group
- 2005 – 2006, VP, Co-GM, Technology and Manufacturing Group
- Joined Intel in 1974

Renee J. James, age 50

- 2013 – present, President
- 2012 – 2013, Executive VP, GM, Software and Services Group
- 2005 – 2012, Senior VP, GM, Software and Services Group
- 2002 – 2005, VP, Developer Programs
- Member of Vodafone Group plc Board of Directors
- Joined Intel in 1988

Brian M. Krzanich, age 54

- 2013 – present, Chief Executive Officer
- 2012 – 2013, Executive VP, Chief Operating Officer
- 2010 – 2012, Senior VP, GM, Manufacturing and Supply Chain
- 2006 – 2010, VP, GM, Assembly and Test
- Joined Intel in 1982

Gregory R. Pearson, age 54

- 2014 - present, Senior VP, GM, Sales and Marketing Group
- 2008 - 2013, GM, Worldwide Sales and Operations Group
- Joined Intel in 1983

Stacy J. Smith, age 52

- 2012 – present, Executive VP, Chief Financial Officer
- 2010 – 2012, Senior VP, Chief Financial Officer
- 2007 – 2010, VP, Chief Financial Officer
- 2006 – 2007, VP, Assistant Chief Financial Officer
- 2004 – 2006, VP, Finance and Enterprise Services, Chief Information Officer
- Member of Autodesk, Inc. Board of Directors
- Member of Gevo, Inc. Board of Directors
- Member of Virgin America, Inc. Board of Directors
- Joined Intel in 1988

ITEM 1A. RISK FACTORS

The following risks could materially and adversely affect our business, financial condition, and results of operations, and the trading price of our common stock could decline. These risk factors do not identify all risks that we face; our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risks and uncertainties, known and unknown, our past financial results may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. You should also refer to the other information set forth in this Annual Report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes.

Changes in product demand can harm our results of operation and financial condition.*Demand for our products is variable and hard to predict.*

Changes in the demand for our products may reduce our revenue, increase our costs, lower our gross margin percentage, or require us to write down the value of our assets. Important factors that could lead to variation in the demand for our products include changes in:

- business conditions, including downturns in the computing industry, or in the global or regional economies;
- consumer confidence or income levels caused by changes in market conditions, including changes in government borrowing, taxation, or spending policies; the credit market; or expected inflation, employment, and energy or other commodity prices;
- the level of our customers' inventories;
- competitive and pricing pressures, including actions taken by competitors;
- customer product needs;
- market acceptance of our products and maturing product cycles; and
- the technology supply chain, including supply constraints caused by natural disasters or other events.

We face significant competition.

The industry in which we operate is highly competitive and subject to rapid technological and market developments, changes in industry standards, changes in customer needs, and frequent product introductions and improvements. If we do not anticipate and respond to these developments, our competitive position may weaken, and our products or technologies might be uncompetitive or obsolete. Over recent years, our business focus has expanded and now includes the design and production of platforms for tablets, smartphones, and other devices across the compute continuum, including products for the Internet of Things, and related services. As a result, we face new sources of competition, including, in certain of these market segments, from incumbent competitors with established customer bases and greater brand recognition. To be successful, we need to cultivate new industry relationships with customers and partners in these market segments. In addition, we must continually improve the cost, integration, and energy efficiency of our products as well as expand our software capabilities to provide customers with comprehensive computing solutions. Despite our ongoing efforts, there is no guarantee that we will achieve or maintain consumer and market acceptance for our products and services in these various market segments.

To compete successfully, we must maintain a successful R&D effort, develop new products and production processes, and improve our existing products and processes ahead of competitors. For example, we invest substantially in our network of manufacturing and assembly and test facilities, including the construction of new fabrication facilities to support smaller transistor geometries and larger wafers. Our R&D efforts are critical to our success and are aimed at solving complex problems, and we do not expect all of our projects to be successful. We may be unable to develop and market new products successfully, and the products we invest in and develop may not be well-received by customers. Our R&D investments may not generate significant operating income or contribute to our future operating results for several years, and such contributions may not meet our expectations or even cover the costs of such investments. Additionally, the products and technologies offered by others may affect demand for, or pricing of, our products.

If we are not able to compete effectively, our financial results will be adversely affected, including increased costs and reduced revenue and gross margin, and we may be required to accelerate the write-down of the value of certain assets.

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

Prices differ widely among the platforms we offer in our various market segments due to differences in features offered or manufacturing costs. For example, product offerings range from lower-priced and entry-level platforms such as those based on Intel Quark or Intel Atom processors to higher-end platforms based on Intel Xeon and Intel Itanium processors. If there is a shift in demand from our higher-priced to lower-priced platforms in any of our market segments, our gross margin and revenue would decrease. In addition, when products are initially introduced, they tend to have higher costs because of initial development costs and lower production volumes relative to the previous product generation, which can impact gross margin.

We operate globally and are subject to significant risks in many jurisdictions.

Global or regional conditions may harm our financial results.

We have manufacturing, assembly and test, R&D, sales, and other operations in many countries, and some of our business activities may be concentrated in one or more geographic areas. Moreover, sales outside the U.S. accounted for approximately 82% of our revenue for the fiscal year ended December 27, 2014. As a result, our operations and our financial results, including our ability to manufacture, assemble and test, design, develop, or sell products, may be adversely affected by a number of factors outside of our control, including:

- global and local economic conditions;
- geopolitical and security issues, such as armed conflict and civil or military unrest, crime, political instability, and terrorist activity;
- natural disasters, public health issues, and other catastrophic events;
- inefficient infrastructure and other disruptions, such as supply chain interruptions and large-scale outages or unreliable provision of services from utilities, transportation, data hosting, or telecommunications providers;
- government restrictions on, or nationalization of our operations in any country, or restrictions on our ability to repatriate earnings from a particular country;
- differing employment practices and labor issues;
- formal or informal imposition of new or revised export and/or import and doing-business regulations, which could be changed without notice;
- ineffective legal protection of our IP rights in certain countries; and
- local business and cultural factors that differ from our normal standards and practices. We are subject to laws and regulations worldwide affecting our operations in areas including, but not limited to, IP ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, employment, environment, health, and safety. Compliance with these laws and regulations may be onerous and expensive and such requirements may differ among jurisdictions.

Although we have policies, controls, and procedures designed to ensure compliance with applicable laws, there can be no assurance that our employees, contractors, suppliers, and/or agents will not violate such laws or our policies. Violations of these laws and regulations could result in fines; criminal sanctions against us, our officers, or our employees; prohibitions on the conduct of our business; and damage to our reputation.

We may be affected by fluctuations in currency exchange rates.

We are potentially exposed to adverse as well as beneficial movements in currency exchange rates. Although most of our sales occur in U.S. dollars, expenses may be paid in local currencies. An increase in the value of the dollar could increase the real cost to our customers of our products in those markets outside the U.S. where we sell in dollars, and a weakened dollar could increase the cost of expenses such as payroll, utilities, tax, and marketing expenses, as well as overseas capital expenditures. We also conduct certain investing and financing activities in local currencies. Our hedging programs reduce, but do not eliminate, the impact of currency exchange rate movements; therefore, changes in exchange rates could harm our results of operations and financial condition.

Catastrophic events or geopolitical conditions could have a material adverse effect on our operations and financial results.

Our operations or systems could be disrupted by natural disasters; geopolitical conditions; terrorist activity; public health issues; cybersecurity incidents; interruptions of service from utilities, transportation or telecommunications providers; or other catastrophic events. Such events could make it difficult or impossible to manufacture or deliver products to our customers, receive production materials from our suppliers, or perform critical functions, which could adversely affect our revenue and require significant recovery time and expenditures to resume operations. While we maintain business recovery plans that are intended to allow us to recover from natural disasters or other events that can be disruptive to our business, some of our systems are not fully redundant and we cannot be sure that our plans will fully protect us from all such disruptions.

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

We operate our own fabrication facilities and, as a result, are vulnerable to manufacturing-related risks.

Due to the variability in demand for our products, we may be unable to timely respond to reduce costs when demand declines or to increase production when demand increases.

Our operations have high costs that are either fixed or difficult to reduce in the short term, including our costs related to manufacturing, such as facility construction and equipment, R&D, and the employment and training of a highly skilled workforce. If product demand decreases or we fail to forecast demand accurately, we could be required to write off inventory or record excess capacity charges, which would lower our gross margin. Our manufacturing or assembly and test capacity could be underutilized, and we may be required to write down our long-lived assets, which would increase our expenses. Factory-planning decisions may shorten the useful lives of facilities and equipment and cause us to accelerate depreciation.

Conversely, if product demand increases, we may be unable to add capacity fast enough to meet market demand. Our revenue and gross margin can also be affected by the timing of our product introductions and related expenses, including marketing expenses.

We are subject to risks associated with the development and implementation of new manufacturing process technology.

We may not be successful or efficient in developing or implementing new production processes. Production of integrated circuits is a complex process. We are continually engaged in the transition from our existing process to the next-generation process technology. This consistent innovation involves significant expense and carries inherent risks, including difficulties in designing and developing next-generation process technologies, development and production timing delays, lower than anticipated manufacturing yields, and product defects and errata. Disruptions in the production process can also result from errors, defects in materials, interruption in our supply of materials or resources, and disruptions at our fabrication and assembly and test facilities due to accidents, maintenance issues, or unsafe working conditions—all of which could affect the timing of production ramps and yields. Production issues can lead to increased costs and may affect our ability to meet product demand, which could adversely impact our business and the results from operations.

We face supply chain risks.

We have thousands of suppliers providing materials that we use in production and other aspects of our business. Where possible, we seek to have several sources of supply for all of those materials. However, for certain materials, we may rely on a single or a limited number of suppliers, or upon suppliers in a single location. In addition, consolidation among suppliers could impact the nature, quality, availability, and pricing of the products and services available to us. The inability of suppliers to deliver adequate supplies of production materials or other supplies could disrupt our production processes or make it more difficult for us to implement our business strategy. Production could be disrupted by the unavailability of resources used in production, such as water, silicon, electricity, gases, and other materials. The unavailability or reduced availability of materials or resources may require us to reduce production or incur additional costs, which could harm our business and results of operations.

We also rely on third-party providers to manufacture, assemble and test certain components or products, particularly for our networking, mobile and communications, and NAND flash memory businesses. If any of these third parties are unable to perform these services on a timely basis, we may encounter supply delays or disruptions that could adversely affect our financial results.

In addition, there are regulatory and other requirements, restrictions, and requests from various constituencies regarding sourcing practices and supplier conduct, with a trend toward expanding the scope of materials and locations where materials originate, regulating supplier behaviors, and increasing the required disclosures regarding such matters by public companies. Increased regulation and public pressure in this area would cause our compliance costs to increase and could negatively affect our reputation given that we use many materials in the manufacturing of our products and rely on many suppliers to provide these materials, but do not directly control their procurement or employment practices.

We are subject to the risks of product defects and errata.

Product defects and errata (deviations from published specifications) may result from problems in our product design or our manufacturing and assembly and test processes. Costs from defects and errata could include:

- writing off some or all of the value of inventory;
- recalling products that have been shipped;
- providing product replacements or modifications; and
- defending against resulting litigation.

These costs could be large and may increase expenses and lower gross margin, and result in delay or loss of revenue. Our reputation with customers or end users could be damaged as a result of product defects and errata, and product demand could be reduced. The announcement of product defects and errata could cause customers to purchase products from competitors as a result of possible shortages of our components or for other reasons. Any of these occurrences could harm our business and financial results.

We are subject to risks associated with environmental laws and regulations.

The manufacturing and assembly and test of our products require the use of hazardous materials that are subject to a broad array of EHS laws and regulations. Our failure to comply with these laws or regulations could result in:

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

Our failure to manage the use, transportation, emissions, discharge, storage, recycling, or disposal of hazardous materials could lead to increased costs or future liabilities. Our ability to grow or modify our manufacturing capability in the future may be impeded by environmental regulations, such as air quality and wastewater requirements. Environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify product designs, or incur other expenses. Many new materials that we are evaluating for use in our operations may be subject to regulation under environmental laws and regulations. These restrictions could harm our business and results of operations by increasing our expenses or requiring us to alter manufacturing and assembly and test processes.

Climate change may also pose regulatory and environmental risks that could harm our results of operations and affect the way we conduct business. For example, climate change regulation could result in increased manufacturing costs associated with air pollution control requirements, and increased or new monitoring, recordkeeping, and reporting of greenhouse gas emissions. We also see the potential for higher energy costs driven by climate change regulations if, for example, utility companies pass on their costs to their customers. Furthermore, many of our operations are located in semi-arid regions that may become increasingly vulnerable to prolonged droughts due to climate change. Our fabrication facilities have significant water use and, while we recycle and reuse a portion of the water used, we may have difficulties obtaining sufficient water to fulfill our operational needs due the lack of available infrastructure.

We are subject to IP risks and risks associated with litigation and regulatory proceedings.

We may be unable to enforce or protect our IP rights.

We regard our patents, copyrights, trade secrets, and other IP rights as important to the success of our business. We rely on IP law as well as confidentiality and licensing agreements with our customers, employees, technology development partners, and others to protect our IP rights. Our ability to enforce these rights is subject to general litigation risks, as well as uncertainty as to the enforceability of our IP rights in various countries. When we seek to enforce our rights, we may be subject to claims that the IP rights are invalid, not enforceable, or licensed to the opposing party. Our assertion of IP rights may result in the other party seeking to assert claims against us, which could harm our business. Governments may adopt regulations—and governments or courts may render decisions—requiring compulsory licensing of IP rights, or governments may require products to meet standards that serve to favor local companies. Our inability to enforce our IP rights under any of these circumstances may harm our competitive position and business. In addition, the theft or unauthorized use or publication of our trade secrets and other confidential business information could harm our competitive position and reduce acceptance of our products; as a result, the value of our investment in R&D, product development, and marketing could be reduced.

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

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

Third parties may assert claims based on IP rights against us or our products, which could harm our business.

We may face claims based on IP rights from individuals and companies, including those who have acquired patent portfolios to assert claims against other companies. We are normally engaged in a number of litigation matters involving IP rights. Claims that our products or processes infringe the IP rights of others, whether or not meritorious, could cause us to incur large costs to respond to, defend, and resolve the claims, and they may divert the efforts and attention of management and technical personnel. In addition, we may face claims based on the theft or unauthorized use or disclosure of third-party trade secrets and other confidential business information or end-user data that we obtain in conducting our business. Any such incidents and claims could severely disrupt our business, and we could suffer losses, including the cost of product recalls and returns, and reputational harm. Furthermore, we have agreed to indemnify customers for certain IP rights claims against them. As a result of IP rights claims, we could:

- pay monetary damages, including payments to satisfy indemnification obligations;
- stop manufacturing, using, selling, offering to sell, or importing products or technology subject to claims;
- develop other products or technology not subject to claims, which could be time-consuming or costly; and/or
- enter into settlement and license agreements, which agreements may not be available on commercially reasonable terms.

These IP rights claims could harm our competitive position, result in expenses, or require us to impair our assets. If we alter or stop production of affected items, our revenue could be harmed.

We rely on access to third-party IP, which may not be available to us on commercially reasonable terms or at all.

Many of our products include third-party IP and/or implement industry standards, which may require licenses from third parties. Based on past experience and industry practice, we believe such licenses generally can be obtained on commercially reasonable terms. However, there is no assurance that the necessary licenses can be obtained on acceptable terms or at all. Failure to obtain the right to use third-party IP, or to use such IP on commercially reasonable terms, could preclude us from selling certain products or otherwise have a material adverse impact on our financial condition and operating results.

We are subject to the risks associated with litigation and regulatory proceedings.

We may face legal claims or regulatory matters involving stockholder, consumer, competition, and other issues on a global basis. As described in "Note 25: Contingencies" in Part II, Item 8 of this Form 10-K, we are engaged in a number of litigation and regulatory matters. Litigation and regulatory proceedings are inherently uncertain, and adverse rulings could occur, including monetary damages, or an injunction stopping us from manufacturing or selling certain products, engaging in certain business practices, or requiring other remedies, such as compulsory licensing of patents. An unfavorable outcome may result in a material adverse impact on our business, results of operations, financial position, and overall trends. In addition, regardless of the outcome, litigation can be costly, time-consuming, disruptive to our operations, and distracting to management.

We must attract, retain, and motivate key employees.

To be competitive, we must attract, retain, and motivate executives and other key employees. Hiring and retaining qualified executives, scientists, engineers, technical staff, and sales representatives are critical to our business, and competition for experienced employees can be intense. To help attract, retain, and motivate qualified employees, we use share-based and other performance-based incentive awards such as restricted stock units and cash bonuses. If our share-based or other compensation programs cease to be viewed as competitive and valuable benefits, our ability to attract, retain, and motivate employees could be weakened, which could harm our results of operations.

We are subject to cybersecurity and privacy risks.

Third parties might attempt to gain unauthorized access to our network or seek to compromise our products and services.

We regularly face attempts by others to gain unauthorized access through the Internet or to introduce malicious software to our information technology (IT) systems. Additionally, malicious hackers may attempt to gain unauthorized access and corrupt the processes of hardware and software products that we manufacture and services we provide. Due to the widespread use of our products and due to the high profile of our McAfee subsidiary, we or our products and services are a frequent target of computer hackers and organizations that intend to sabotage, take control of, or otherwise corrupt our manufacturing or other processes, products, and services. We are also a target of malicious attackers who attempt to gain access to our network or data centers or those of our customers or end users; steal proprietary information related to our business, products, employees, and customers; or interrupt our systems and services or those of our customers or others. We believe such attempts are increasing in number and in technical sophistication. From time to time we encounter intrusions or attempts at gaining unauthorized access to our products, services, and network. To date, none have resulted in any material adverse impact to our business or operations. In some instances, we, our customers, and the users of our products and services might be unaware of an incident or its magnitude and effects. While we seek to detect and investigate all unauthorized attempts and attacks against our network, products, and services, and to prevent their recurrence where practicable through changes to our internal processes and tools and/or changes or patches to our products and services, we remain potentially vulnerable to additional known or unknown threats. Such incidents, whether successful or unsuccessful, could result in our incurring significant costs related to, for example, rebuilding internal systems, reduced inventory value, providing modifications to our products and services, defending against litigation, responding to regulatory inquiries or actions, paying damages, or taking other remedial steps with respect to third parties. In addition, these threats are constantly evolving, thereby increasing the difficulty of successfully defending against them or implementing adequate preventative measures. Publicity about vulnerabilities and attempted or successful incursions could damage our reputation with customers or users, and reduce demand for our products and services.

We may be subject to theft, loss, or misuse of personal data about our employees, customers, or other third parties, which could increase our expenses, damage our reputation, or result in legal or regulatory proceedings.

The theft, loss, or misuse of personal data collected, used, stored, or transferred by us to run our business could result in significantly increased security costs or costs related to defending legal claims. Global privacy legislation, enforcement, and policy activity in this area are rapidly expanding and creating a complex compliance regulatory environment. Costs to comply with and implement these privacy-related and data protection measures could be significant. In addition, our even inadvertent failure to comply with federal, state, or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others.

We are subject to risks associated with strategic transactions.

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

We make investments in public and private companies around the world to further our strategic objectives and support key business initiatives. Many of the securities in which we invest are non-marketable at the time of our initial investment. Companies in which we invest range from early-stage companies still defining their strategic direction to mature companies with established revenue streams and business models. The success of our investment in any company is typically dependent on the availability to the company of additional funding on favorable terms, or a liquidity event, such as a public offering or acquisition. If any of the companies in which we invest fail, we could lose all or part of our investment. If we determine that an other-than-temporary decline in the fair value exists for an investment, we write down the investment to its fair value and recognize a loss.

Our acquisitions, divestitures, and other transactions could fail to achieve strategic objectives, disrupt our ongoing business and harm our results of operations.

In pursuing our business strategy, we routinely conduct discussions, evaluate opportunities, and enter into agreements for possible acquisitions, divestitures, and other transactions, such as joint ventures. Given that our resources are limited, our decision to complete an acquisition has opportunity costs and we may need to forego the prospect of acquiring other companies or technologies that could help us achieve our strategic objectives. In addition to opportunity costs, these transactions involve large challenges and risks, including risks that:

- the transaction may not advance our business strategy;
- we may be unable to identify opportunities on terms acceptable to us;
- we may not realize a satisfactory return;
- we may experience disruption of our ongoing operations;
- we may be unable to retain key personnel;
- we may experience difficulty in integrating new employees, business systems, and technology;
- acquired businesses may not have adequate controls, processes, and procedures to ensure compliance with laws and regulations, and our due diligence process may not identify compliance issues or other liabilities;
- we may have difficulty entering new market segments;
- we may be unable to retain the customers and partners of acquired businesses; and/or
- there may be unknown, underestimated, and/or undisclosed commitments or liabilities.

When we decide to sell assets or a business, we may have difficulty selling on acceptable terms in a timely manner, and the agreed-upon terms and financing arrangements could be renegotiated due to changes in business or market conditions. These circumstances could delay the achievement of our strategic objectives or cause us to incur additional expense, or we may sell a business at a price or on terms that are less favorable than we had anticipated, resulting in a loss on the transaction.

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

- failure to obtain regulatory or other approvals;
- IP disputes or other litigation; or
- difficulties obtaining financing for the transaction.

We are subject to sales-related risks.

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

We sell a significant portion of our products through third parties such as distributors, value-added resellers, OEMs, Internet service providers, and channel partners (collectively referred to as distributors). Using third parties for distribution exposes us to many risks, including competitive pressure, concentration, credit risk, and compliance risks. Distributors may sell products that compete with our products, and we may need to provide financial and other incentives to focus distributors on the sale of our products. We may rely on one or more key distributors for a product, and the loss of these distributors could reduce our revenue. Distributors may face financial difficulties, including bankruptcy, which could harm our collection of accounts receivable and financial results. Violations of the Foreign Corrupt Practices Act (FCPA) or similar laws by distributors or other third-party intermediaries could have a material impact on our business. Failure to manage risks related to our use of distributors may reduce sales, increase expenses, and weaken our competitive position.

We face risks related to business transactions with U.S. government entities.

We receive proceeds from services and products we provide to the U.S. government. U.S. government demand and payment may be affected by public sector budgetary cycles and funding authorizations. U.S. government contracts are subject to oversight, including special rules on accounting, IP rights, expenses, reviews, information handling, and security. Failure to comply with these rules could result in civil and criminal penalties and sanctions, including termination of contracts, fines, and suspensions, or debarment from future U.S. government business.

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

The methods, estimates, and judgments that we use in applying accounting policies have a large impact on our results of operations. For more information, see "Critical Accounting Estimates" in Part II, Item 7 of this Form 10-K. These methods, estimates, and judgments are subject to large risks, uncertainties, and assumptions, and changes could affect our results of operations.

Changes in our effective tax rate may reduce our net income.

A number of factors may increase our effective tax rates, which could reduce our net income, including:

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

We may have fluctuations in the amount and frequency of our stock repurchases.

The amount, timing, and other execution of our stock repurchase program may fluctuate based on our priorities for the use of cash for other purposes, such as investing in our business, including operational spending, capital spending, and acquisitions, and returning cash to our stockholders as dividend payments, and because of changes in cash flows and changes in tax laws.

Workforce restructuring actions may be disruptive to our operations and adversely affect our financial results.

In response to the business environment and to accomplish our strategic objectives, from time to time we may restructure our operations or make other adjustments to our workforce. Such workforce changes can result in restructuring charges in addition to those described in "Note 13: Restructuring and Asset Impairment Charges" in Part II, Item 8 of this Form 10-K. Such workforce changes can also temporarily reduce workforce productivity, which could be disruptive to our business and adversely affect our results of operations. In addition, we may not achieve or sustain the expected cost savings or other benefits of our restructuring plans, or do so within the expected time frame.

There are inherent limitations on the effectiveness of our controls.

We do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that resource constraints exist, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate due to changes in conditions or deterioration in the degree of compliance with policies or procedures. If our controls become inadequate, we could fail to meet our financial reporting obligations, our reputation may be adversely affected, our business and operating results could be harmed, and the market price of our stock could decline.