Good afternoon, my name is Hope, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Intel Second Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers remarks there will be a question-and-answer session. (Operator Instructions)

Thank you, Mr. Mark Henninger, Director of Investor Relations; you may begin your conference.

Mark Henninger

Thank you, Hope, and welcome everyone to Intel's Second Quarter 2012 Earnings Conference Call. By now, you should have received a copy of our earnings release and the CFO commentary that goes along with that. If you've not received both documents, they're currently available on our investor website, intc.com.

I'm joined today by Paul Otellini, our President and CEO; and Stacy Smith, our Chief Financial Officer. In a moment, we'll hear brief remarks from both of them, followed by Q&A.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it, and as such does include risks and uncertainties. Please refer to our press release for more information on the specific risk factors that could cause actual results to differ materially. Also, if during this call we use any non-GAAP financial measures or references, we'll post the appropriate GAAP financial reconciliation to our website, intc.com.

So with that, let me hand it over to Paul.

Paul S. Otellini

Thanks, Mark, and good afternoon, everyone. Against a backdrop of mixed macro economic trends, our business in the second quarter played out largely as we expected. We continue to enjoy a rich mix of products in both the PC and data center group, and our distributor channel had its best Q2 in five years.

Our Technology and Manufacturing Group once again delivered fantastic results. Our 22-nanometer process health is ahead of where a 32-nanometers was at the same point in its ramp, and ahead of our own plans. That enabled us to ramp Ivy Bridge to nearly a quarter of our PC volume, our fastest ramp ever.

We also announced an important agreement at the ASML last week that we expect, we'll accelerate the developments and deployment of 450 millimeter and EUV Lithography technologies by up to two years, and deliver significant value to our shareholders.

Ultrabooks continued to build momentum, and achieved our volume goals for the first half. We are very pleased with the level of innovation and invention being brought into this category, and are now tracking over 140 Ivy Bridge base designed in the pipeline. Of those, more than 40 will be touch enabled and a dozen will be convertibles.

With visibility into this many designs, we are very confident that we'll see $699 systems at retail this fall. We are also tracking more than 20 Windows 8 Tablet designs based on our low power and low cost Clover Trail Atom SoC in addition to a number of core based tablets.

In our data center business, volume growth combined with a rich mix drove record server revenues. In fact, the mix up to our highest performing [Walnut] products was more than two times that of the prior-generation Westmere at the same point in this ramp. DCG grew 15% over the second quarter last year with cloud volume growing at more than twice the rate of the rest of the server market segment. Those figures put the data center on track to the growth targets that we shared with you in May.

High-performance computing continues to be one of the fastest growing segments within our data center business. And earlier this quarter, we announced more technical details behind our new Many Integrated Core Co-Processor throughout later this year. Branded Xeon Phi, this new product family will combine the throughput of highly parallel computing with the familiar programming models of the Intel architecture. Phi will be an impressive product for the HPC market segment with more than 50 cores manufactured on our 22-nanometer Tri-Gate process technology. We already have more than 40 customers bind up to support the architecture.

In the smartphone space, we saw the launch of Medfield-based phones from Lenovo, Lava and Orange to great reviews. These launches further established Intel in the market building on the wide presence we have in baseband.

Overall, our business in the first half was consistent with our expectations. As we look ahead at to the second half of the year, consumer market growth in Western Europe and North America is not forecasted to recover as fast as we had anticipated. Worldwide enterprise demand is growing as expected.

Emerging markets, especially China and Brazil are still growing nicely, but are moderating due to GDP adjustments and currency fluctuations. Taken together, these factors have led us to adjust our expectations for the second half. We are now expecting full-year revenue growth in the 3% to 5% range versus our prior expectation of high single digits.

Our results in the second quarter demonstrates, that having a deep and long established presence in every geography, combined with leading technology, manufacturing and products are important in any environment, but they're especially valuable in the mixed market we are now experiencing. With the wide range of Ultrabooks and Intel-based tablets expected to be available this year, and an exciting Windows 8 launch just around the corner, we remain optimistic about our future.

With that, let me turn the call over to Stacy.

Stacy J. Smith

Thanks, Paul. The second quarter results came in largely as expected. Second quarter revenue came in at $13.5 billion, up 4% year-on-year.

Enterprise in emerging markets contributed to the year-on-year growth somewhat offset by continued weakness in mature markets. The core business came in as expected though we saw softness in our NAND memory business. At the segment level, the PC Group grew 4% from a year-ago and the Data Center Group grew 15%.

Inventory levels across the worldwide PC supply chain are healthy, but are being managed below historical averages based on macroeconomic uncertainty and ahead of the Windows 8 operating system release. For the third quarter of 2012, we are forecasting the midpoint of the revenue range of $14.3 billion, up 6% from the second quarter, which is at the lower end of the historical range.

Moving to gross margin, second quarter gross margin of 63% was slightly better than the midpoint of our guidance and down slightly from the first quarter. Our forecast for 2012 is unchanged at 64% gross margin for the year and our gross margin forecast for the third quarter is 63%.

As expected, the fast ramp of Ivy Bridge resulted in a cost increase in the second quarter. We expect that the second quarter was the peak in terms of platform unit costs with cost coming down in the third quarter and more in the fourth quarter. For the second quarter, spending was in line with expectations with $4.6 billion. Based on the macroeconomic environment, we have taken actions to slow hiring and as a result, by lowering our spending forecast for the year to $18.2 billion. We expect spending in the third and fourth quarters to be flat to the second quarter.

Taking a look at the balance sheet, total cash investments ended the quarter at $13.6 billion approximately flat to the first quarter. We generated approximately $5 billion in cash from operations, paid approximately $1 billion in dividends, purchased nearly $3 billion in capital assets, and had roughly $1 billion of stock repurchases.

Inventory grew by approximately $400 million. More than all of the increase in inventories came from the Ivy Bridge ramp, but then offset as we reduced inventory levels of older generation products.

While macroeconomic weakness and our expectations that our customers will continue to maintain lower inventory levels has lead us to reduce our expectations to 3% to 5% revenue growth for the year. We continue to make great progress in the market. Both Romley and Ivy Bridge ramps are significantly faster than their predecessors. We are winning significant designs in Ultrabooks, phones and tablets. And our manufacturing lead continues to generate leading products and low costs.

With that let me turn it back over to Mark.

Mark Henninger

All right, thank you Paul and Stacy. We'll now move on to the Q&A and as is our normal practice; we ask each participant to ask one question and a follow-up if you have one. Hope, would you please go ahead and introduce our first questioner.

Question-and-Answer Session

Operator

Our first question comes from the line of Glen Yeung, Citi.

Glen Yeung – Citigroup Inc.

Thanks very much. I think my first question is about the distributors, I think Paul you said that they had their best future in the five years. Anyone if you could just explains the reasons why that's the case?

Paul S. Otellini

Well, over the – that's Q2 in five years. Over the last several years, our distribution channel role has shifted and evolved quite a bit. If you take a snap shot five years ago, most of the business was then distributing desktop microprocessors, and mother boards, and then went into white box builds. And as the PC market shifted from desktops to notebooks they became less of a driver of the PC volume. They picked up skill sets to do systems integration and they're now among our larger server channels. So the distribution channel has sort of reinvented itself and is now a fairly significant force in not just the desktops, in emerging markets or pre-assembled notebooks, but increasingly for servers and storage systems.

Glen Yeung – Citigroup Inc.

Got it. All right, thanks. And as a follow up, maybe for Stacy, looking at the gross margin guidance and looking at your reconciliation in the printed commentary, it sounded like the only negative impact to gross margins in Q3 would be these other cost of sales, and I wonder if you could just explain what's going on in there?

Stacy J. Smith

Sure. What's going on with other cost of sales in Q3 as we are finding some opportunities to take some 32-nanometer capacity offline. They're relatively small today, but it's just a result of the lower demand expectations on the year. And so we are taking some of those factories off and so you will see a little bit of demolition costs and some of those things that flows through other cost of sales. And, yeah, it's not huge, it's between half a point and a point, but it's a bit of an offset in gross margin in the third quarter.

Glen Yeung – Citigroup Inc.

It is temporary or does it happen once and then it doesn't recur?

Stacy J. Smith

Yeah, absolutely. Again, if you've seen us do this before Glen, when we have demand coming in less than expected and I actually talked about it in the investor meeting, we look for opportunities to take the older generation capacity offline and because we can reuse that equipment at the leading edge, we just take advantage of those opportunities.

Glen Yeung – Citigroup Inc.

That's perfect. Thanks Stacy.

Stacy J. Smith

You are welcome.

Operator

Your next question comes from the line of Sumit Dhanda, ISI Group.

Sumit Dhanda – ISI Group, Inc.

Yes. Hi, guys. First question, Stacy, could you just tell us in terms of your expectations in the channel refill that you talked about on the previous call, are you shipping back to demand levels, the 3% rise in PC Client units reflect that or was that below your expectations? And how exactly you're thinking about that into the third quarter?

Paul S. Otellini

Yeah. So generally in the second quarter, the core business came in as we expected when we started the quarter, that being slightly below the midpoint was really entirely due to NAND, which I can talk about separately later in the call. In terms of what our expectations are for the inventory pipeline, I think we saw more than in Q2 than we expected. And as we look into the back half of the year, our current expectations that some of you are hearing from customers is, based on macroeconomic uncertainty and the timing of the Windows 8 launch, they're going to continue to manage inventory levels lean, and that's a change from where we were a quarter ago in those points, so they're below seasonal guide for the third quarter.

Sumit Dhanda – ISI Group

Okay. and then as my follow-up, just a question on the – what seems to be a pretty significant dichotomy between notebook volumes and desktop volumes sequentially, especially, given that you said kind of price was decent. so I would have thought desktops might do a little better, but curious to hear what your explanation on that is if any?

Paul S. Otellini

It's not new. We've been seeing robust notebook growth rates now for several years, well in excess of what's happening in desktop. I'd say notebooks really is a volume story and then in desktops, I think that they've done a really good job of driving segmentation. And so, again, even with lower unit growth, they've been driving some nice revenue growth but a lot of that is segmentation and ASP uplift.

Sumit Dhanda – ISI Group

Thank you.

Operator

Your next question comes from the line of Daniel Berenbaum, MKM Partners.

Daniel Berenbaum – MKM Partners LLC

Thank you. Maybe actually just a follow-up on that, when you talk about segmentation and the ASP uplift that also leads it to the competitive scenario question, obviously, you're doing a lot better than your primary competitor just based on their recent news. can you talk a little bit about why you think that is with the PC space, you mentioned a little bit that emerging markets are still growing well, do you think it's competition at the emerging markets or is it more really with the data center, can you help us understand that?

Paul S. Otellini

Well, if I understand their pre-announcements, well, we did a little bit better than them. We thought this quarter was probably in the low-end desktop and notebook business. So we probably took back a little share at the bottom of the PC SKUs, I think our position in the servers is really unchanged and is really quite good.

Daniel Berenbaum – MKM Partners LLC

Okay. And then going back to the inventory question, you talked about the inventory and the channel being a bit low, but your own inventory is quite high. Understand that a lot of this is coming from the ramp of new products, but what gives you the confidence in guiding to relatively high gross margins for the rest of the year, for the full year, are you – what are the puts and takes there and what should we be concerned about or what are you concerned about potentially with that inventory build?

Paul S. Otellini

Yeah. So, let me take those as two separate things. The inventory build is directionally what we expected. I think the one thing that we are able to fill Ivy Bridge a little faster than we thought and Ivy Bridge, it accounts for all of the inventory growth, its both the units and dollars this quarter. And when I look across CPU inventory level, Ivy Bridge is not more than half of the inventory that just sitting in there. As I think about the next quarter, I think it will be pretty flat and we'll see business level start to grow, and the days of inventory will start coming down from here would be my expectation. With the gross margin story for us really is a cost story and I talked about this last quarter. We have this phenomenon and we'll ramp in multiple factories at the same time on 22-nanometer. Those early products coming out of the factories are pretty expensive products that led to a peaking cost in Q2.

As we move into Q3, we now have the phenomenon where cost comes down rapidly on Ivy Bridge, but as Paul talked to you about, it's about a quarter of our volume in Q2. We are going to more or less double that volume in Q3, and so yeah, this phenomenon where cost come down, but the volume doubles, I'll see some cost good news in Q3, it's between half a point to a point, and then I get more cost good news in Q4, as that ramp starts to flatten out a bit.

And so, really the thing I mentioned on gross margin is, are we on the path of cost reduction of Ivy Bridge, and on the ramp rate, we're doing great on the cost, with ramp rates little ahead of forecast, that gives me the confidence, that we'll see a gross margin in Q4, that's kind of around 65% and that gets me to 64% for the year.

Daniel Berenbaum – MKM Partners LLC

Okay, great. Thanks very much.

Operator

Our next question comes from the line of Christopher Danely, JPMorgan.

Christopher B. Danely – JP Morgan Chase & Co.

Thanks guys. First question for Paul. Paul, can you just talk about maybe put a little more color around the macro slowdown you are seeing, when it happened, was it just a sudden jump down, has it been a slow erosion, but maybe going to the geos a little bit, which has been more impacted or less impacted?

Paul S. Otellini

Sure. Well, first of all, let me color it by saying that we still see growth in all of these geographies, and we're forecasting a stronger second half and first half, and gave the year-over-year numbers. What we had expected, that we would see by now is that the U.S. and Western Europe consumer businesses will be recovering from sort of a softness that we've seen for several quarters. And as a result of not seeing that, two things are happening: one, we don't see the PC sales to be as robust as we first thought, but the inventory replenishment coming off of the hard drive shortage is not as deep as we thought or as large as we thought, because people are expecting to sell into a smaller overall TAM growth.

In terms of China and Brazil, which I singled out, but I could have also spoken a little bit about maybe Russia and India. In some of the countries we're seeing the prices of computers go up as a result of the currency fluctuations against the dollar. Most PC components including ours are sold globally in dollars, and the PCs are typically priced in dollars. So – at least to the distributors in those countries, so the price goes up as the currency changes.

In China, it is a little bit different. And what we're seeing there is an abatement of the GDP growth and sort of 8.8% in the quarter down to 7.7% in the quarter. And while we still see growth there, we don't see quite as much as we first thought. So we add all those together plus the fact that the enterprise is doing pretty good, you come down to a more muted growth scenario than we first thought.

Christopher Danely – JPMorgan

Thanks. And as my follow-up, it sounds like you're guiding Q4 to be somewhat back to normal. Is that because you expect Win 8 to drive PC demand or some inventory replenishment or well your tablet and handset efforts start to be material, can you just go into detail on that?

Stacy J. Smith

I think if you take – Chris, if you take the midpoint of our revenue guidance for the year, you'll come out to Q4 that's kind of seasonal on the back of the low seasonal Q3. So I'd say, it's a continuation of the trends that we've seen. Specifically, to your question, no, it's not predicated on doing more sales in either tablets or in smartphones, but don't take from that, those aren't important segments. We think we are on a path to have a lot of products in the market, we're wining design wins, which really is the momentum that builds into 2013.

Christopher Danely – JPMorgan

So then why Q4 back to normal then?

Paul S. Otellini

Well, we would, we expect that we're going to leave Q3 with relatively lower inventory levels. You have refresh with Windows, and we have seen over 20 years of history, a pattern in the back half sales tend to larger than front half sales. And so I think it's a reasonable baseline forecast for us.

Christopher Danely – JPMorgan

Great. Thanks, guys.

Operator

Your next question comes from the line of Kevin Cassidy, Stifel Nicolaus.

Operator

Kevin?

Paul S. Otellini

I think we may have lost Kevin.

Operator

Your next question comes from the line of Romit Shah, Nomura.

Romit Shah – Nomura Equity Research

Thanks. There have been reports over the last month or so that Intel has been cutting prices on Ivy Bridge, I was hoping you could just comment on that. Is it true? What's behind it?

Paul S. Otellini

No. Our pricing strategy is unchanged and Ivy Bridge is coming in at the top of the scale. What those reports may – I haven't seen the reports, Romit, but they may be just pointing to the fact that, we're filling in more price points with Ivy Bridge, but we have not reduced our price points.

Stacy J. Smith

As Paul said, by the way, the place where we probably won some share and where we are seeing kind of robust pricing as more at the very lower end of PC market is not where Ivy Bridge is pointing.

Romit Shah – Nomura Equity Research

Okay. That's helpful. And then Stacy, in your gross margin guidance for Q3, you highlight lower platform ASPs, could you give us some color there?

Stacy J. Smith

Yeah. And we realized that we're talking kind of half a point to a point, relatively small changes. But in the third quarter, there's a couple of things that has caused me for that forecast though. First, Q3 tends to be a larger consumer quarter, where you see a little bit of a mix impact associated with that, again, not changing our price point is just a mix of what we think sells through in the third quarter.

And then the second thing is, well, I was just talking about, we think we're probably gaining some share at the low-end of the market, we'd expect that to continue into the third quarter, but fairly muted impact. So all of this is in the context of what I articulated at the beginning of the year of a pretty benign pricing environment, I hadn't seen anything that causes me to change that view.

Romit Shah – Nomura Equity Research

All right. Thank you.

Stacy J. Smith

Welcome.

Operator

Your next question comes from the line of John Pitzer, Credit Suisse.

John Pitzer – Credit Suisse

Good afternoon, guys. Congratulations. Stacy, you guys are kind of controlling OpEx relative to the slightly weaker than expected demand environment. You've also talked about kind of doing what you did back in the financial crisis as moving some spare capacity forward. But you haven't changed the overall CapEx number for the year. Is that because this is predominantly brick and mortar, and does that give you more flexibility on next year's CapEx, if you can just help me understand that dynamic?

Stacy J. Smith

Well, what we're spending CapEx on this year is really kind of building that 22-nanometer ramp, but it's not key 22-nanometer, and that capital is appropriate to invest really in any economic climate. So the change in the demand environment hasn't changed our view of at least to the 22-nanometer capital we're putting in place today.

That said, as I said earlier, we are seeing some opportunities to take some older generation capacity offline and roll forward. My guess is, as we work through those we'll end up at the lower end of the range on CapEx. We're just – we're looking through those opportunities as we speak, and I think we'll come down a bit from here.

John Pitzer – Credit Suisse

And then Paul, relative to the Win 8 launch, Microsoft did now come out and decided they want to be a tablet company with the Surface products, and it sounds like their intent is not to use that as a Reference Design for other OEMs to follow, but actually try to make a real business out of that. What kind of impact do you think that might have on the traditional PC business, if any?

Paul S. Otellini

Well, I think you again have to ask our customers that question. From our perspective, I guess we're certainly happy to have them as another hardware customer. We haven't sold chips to them for quite some time since the Xbox days. But in terms of the ecosystem, I don't know that, we know their plans deeply enough in terms of this, flagships skew or they tend to have broader designs on the market, I don't know, until. I think that question has to go to them and to our customers.

John Pitzer – Credit Suisse

Perfect, thanks guys.

Operator

Your next question comes from the line of Vivek Arya, Bank of America/Merrill Lynch.

Vivek Arya – Bank of America/Merrill Lynch

Thanks for taking my question. First, your PC client ASPs are staying within the benign range that I think you have mentioned multiple times. I'm curious, is there some scope of benefit from becoming a little more aggressive on pricing to stimulate demand or is this a very price inelastic market? Then where I'm going with that is on the Ultrabook side, but it has to be somewhat more aggressive because you do have cost leadership and flexibility?

Paul S. Otellini

I don't think so. I think that the value associated with the Ultrabooks, they start with the core product line, the Core i3, 5 and 7s is still pretty good, and I commented in my statement that I think that we're quite sure that the prices are going to be $699 and in the sweet spot. If there was that kind of elasticity, which we have not seen then I would expect some of the thin and light designs around the Pentium and Celeron chips that we sell, we'd pick up some of that volume and we don't see that today. What we are seeing is that in the time of tight consumer budgets people buy quality and they tend to buy the high-end of the line or reasonably high-end of our product lines.

So it's not going to last, if you want something to last a few years that that tends to give them a bit more of assurance. And I'd also say the other thing that I haven't come up yet is, the Win 7 to Win 8 transition. And as we have done in the past in terms of working with Microsoft, the units that are shipped now in the marketplace are Win 8 ready. And they have programs, incentive programs to be able to buy the upgrade with the coupon at a discount.

Vivek Arya – Bank of America/Merrill Lynch

All right. Thanks, Paul. And for my follow-up, I think you had mentioned consumer weakness in the mature markets mostly due to macro, but I'm wondering what role are tablets playing in that and how soon can we look to Clover Trail based tablets to somehow help reserve back the trend? Thank you.

Paul S. Otellini

Yeah. Well, certainly over the last couple of years as tablet volumes have ramped up, they do present and have presented an alternative for consumer share of wallet, particularly at the time when consumer share of wallet is tighter than it has been in the past. And our thesis really hasn't changed here, which is that that these are incremental machines for the most part, people still have primary computers in the likes most people do, much like they did that we saw when the netbooks ramped up several years ago. As Intel based tablets are shipping both on Windows 8 and Android, we expect to be able to participate in that fast growing market, but I don't think those numbers are going to be material this year. I think that just because of the start on, the timing of the start is going to be a slower ramp, and Stacy really addressed it earlier in his comment on phones and tablets.

Vivek Arya – Bank of America/Merrill Lynch

All right. I'm just wondering why [video amp] camp has been so much more aggressive after that Windows 8 tablet market and why Microsoft did not launch a Clover Trail based or did not announce a Clover Trail based tablet? It's just a difference of timing or…?

Paul S. Otellini

I think you need to – they talked about core-based machines more like an Ultrabook, those convertible kind of machine, which I think is actually a pretty good machine. And, so no compromise device. So my term is when I go shopping that's the device, I'd buy.

Stacy J. Smith

And you will see Clover Trail tablets time to market where…

Paul S. Otellini

Yeah, at launch.

Stacy J. Smith

At launch. So I think it’s just a choice that Microsoft made in terms of their read to the market at a higher performance, more like an Ultrabook device is what they wanted to lead with.

Vivek Arya – Bank of America/Merrill Lynch

Okay. Thank you.

Paul S. Otellini

Thanks, Peter.

Operator

Your next question comes from Vijay Rakesh, Sterne, Agee.

Vijay Rakesh – Sterne, Agee & Leach

Guys, thanks. I was just wondering when you look at the inventory side, obviously came up and you mentioned this Ivy Bridge. How much of it was (inaudible)?

Stacy J. Smith

I think you mean units or costs right?

Vijay Rakesh – Sterne, Agee & Leach

Yeah. How much of it was, if you could break it out, the pick up between unit versus pricing?

Paul S. Otellini

Yeah, I think last quarter I said that unit growth was relatively muted and that was really cost. This quarter where its units primarily I mean and cost is secondary. So about to get that level of granularity, but you should kind of visualize it as we are – our inventories we are reducing units on older generation products and we are refilling our inventory pipeline with Ivy Bridges. It’s primarily units of Ivy Bridge and then those units are a little bit more expensive still than the Sandy Bridge parts that they’re replacing.

Vijay Rakesh – Sterne, Agee & Leach

Got it. And one last question is on the Ultrabook side and you mentioned you expect pricing to go to 699. What are the dollars you see there, because of SSD pricing, NAND pricing has gone starting to extrapolate that to red zone?

Paul S. Otellini

Well, NAND pricing is not been stable, coming to some of the reasons we didn't hit the midpoint this quarter, it was the reason. And what we're seeing those is, there's a variety of SKUs that our customers are designing, I talked about over 140 designs, some of them are aiming at a premium segment and higher prices using SSDs. Some of them are using these ultra low-profile very high capacity drives, which are now becoming available, which gives you the capacity and the thinness at the same time, which I think it's a nice way to hit lower price points.

Vijay Rakesh – Sterne, Agee & Leach

Got it. Thanks a lot.

Operator

Your next question comes from the line of Hans Mosesmann, Raymond James.

Hans Mosesmann – Raymond James

Paul, couple of questions on Windows 8. How much of the guide in Q3 is due to this potential air pocket in front of Windows 8, and how do you see Windows 8 next year in terms of traditional, historical operating system cycles? Thanks.

Paul S. Otellini

I don't know how much of the – was – for the air pocket is Windows 8 versus the macro economics, in fact it's very hard for us to distinguish that today. Given that if we have not seen stalls before, because we're shipping chips in to our customers in advance of the operating system being loaded. But having said that, since the last Windows release, we've moved to more of a hub model with our chips, so that means people can draw these bit more just in time. So that maybe some of the air pocket that we're seeing, to use your phrase in Q3, but I think that gets filled up pretty quickly in Q4, and it's – as I said earlier, a lot of people buy the Win 7 machines with the coupon and then upgrade?

Hans Mosesmann – Raymond James

Okay. And then, for next year?

Paul S. Otellini

To some extent – my sense is that you'll see a very rapid adoption in consumer as you've seen before, and an enterprise will convert, you'd typically be starting with the first equivalent with the service pack release hereafter their fall cycles were done, so it tends to like initial deployment, tends to like six months or so.

Hans Mosesmann – Raymond James

Great, thank you.

Stacy J. Smith

Thanks Hans. And Hope, I think we have time for two more callers.

Operator

Your next question comes from the line of Jim Covello, Goldman Sachs.

James Covello – Goldman Sachs

Thanks so much for taking the question, I appreciate it. Somewhat related to John Pitzer's question, Stacy, you have presented some slides at the Analyst Meeting, that I think you said kind of hold on tax, what if our view on unit growth changes, and then you presented a very helpful responsiveness case study. Is what you described to John relative to ramping down some older products and fabs and putting newer products in that and being at the low end of CapEx, is that the responsiveness case study or would that be another step altogether?

Stacy J. Smith

No. it all falls under that general category of responding to changes in the demand environment. We're kind of constantly looking at demand. Now we realized, we are – CapEx, it's more important as we figure out what, '13 and '14 demand looks like. But yeah, as we see opportunities to take 32-nanometer capacity offline, and roll it forward, then it offsets capital that we would have had to buy for 22-nanometer. The case study I shared was one where you see a dramatic shift in demand levels that happens as a result of a financial crisis that takes everything down in a very faster rate of time. This is one where our expectations are just moderating. and so we're finding some incremental opportunities to start to react that way.

James Covello – Goldman Sachs

And so I guess as my follow-up, I mean what do you think about factory loadings or utilization as you go through the third quarter as your outlook for the year changes and some of capacity from the previously spent CapEx kind of ramps up, you think the factory loadings will remain at high level utilization stays at the same level or do you begin to bring that down some?

Stacy J. Smith

At 22-nanometer, so the process what we're doing, Ivy Bridge, that will stay full. We see the demand signals continue to be strong and we're going through the inventory replenishment to get the production stuff in the inventory. We have seen loadings come down some in 32-nanometer, not to the point that we're taking underload charges, but to the point that we can start to take a little bit of that capacity offline. And as I said to John's question, if I have the brands to predict, I think we'll find more of those opportunities over the course of the back half of this year.

James Covello – Goldman Sachs

Thank you very much.

Stacy J. Smith

You're welcome.

Paul S. Otellini

Thanks, Jim.

Operator

Your final question comes from the line of Craig Ellis, Caris & Company.

Craig Ellis – Caris & Company

Thanks for taking the question. Paul, just back on Ultrabook topic, as you look to end of the back half of the year, how do you see the Ultrabook mix shaking out as a percent of notebooks, I think in the past, you've referenced a 40% of consumer notebooks by the end of this year. is that still a reasonable number or how are you looking at that?

Paul S. Otellini

Yes, it is. We really haven't changed our view on that. a couple of things give us confidence there. One is, first half shipments on Ultrabooks were essentially right on our expectation set over six months ago. And the design pipeline for what we see in the second half, and the price points that we see, we think will get as there. In a softer selling season, I think these machines become even more attractive. And so, I'm fairly confident, we'll hit our volume goals of this in terms of percent mix for the consumer notebooks.

Craig Ellis – Caris & Company

(Inaudible) and then switching gears, Stacy you have mentioned in earlier commentary, you've come back to the NAND business, I don't think, I heard you do that, so I'd just not give you an opportunity to make any comment that you might have?

Stacy J. Smith

Yeah, I was assuming someone is going to ask me the question. Yeah, we saw NAND soften in Q2, we saw on our commentary and as Paul alluded too, I don't think its just as, I think you're seeing that from other company, it led to us being a little lower in revenue, I think that continues as part of the lowering of expectations into the back half, you know there is a chunk of that, that's NAND related.

I want to contrast it, it's really different compared to the last downturn we went to, which I think it was about four years ago, you can really see the impact of the strategy that we've been pursuing in that business. The fact that we now have process technology leadership, and we've transitioned all of our shipments to higher margin segments of the NAND market, like SSDs and compute NAND. So that even though while it's impacting us at the top line, it's a business that still is generating positive profit, and its still generating positive cash flow. As a fairly new CFO, the last big downturn hit NAND and it was quite different, because we didn't have that cost leadership. And we were shipping into the commodity segments of the business. So, I think it's a real testament to what they have accomplished in the business, but it's definitely soft.

Craig Ellis – Caris & Company

And nice going with that business. And thanks very much for answering the questions guys.

Stacy J. Smith

Thanks.