Good day, ladies and gentlemen, and welcome to the Q4 2010 Intel Corporation earnings conference call. My name is Marcello, and I'll be your coordinator for today. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. Kevin Sellers, Vice President of Investor Relations. Please proceed, sir.

Kevin Sellers

Thank you, Marcello, and welcome everyone to Intel's fourth quarter 2010 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 are currently available on our Investor website intc.com.

I am joined today by Paul Otellini, our President and CEO; and Stacy Smith, our Chief Financial Officer. We will follow our normal practice by hearing brief prepared remarks from both Paul and Stacy after which we'll be happy to take questions.

By way of announcement, Intel will be hosting our annual investor day at our headquarters here in Santa Clara, California, on Tuesday, May 17, 2011. We look forward to seeing many of you here.

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 will post the appropriate GAAP financial reconciliations to our website intc.com.

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

Paul Otellini

Thanks, Kevin. Our fourth quarter results represent the third consecutive record quarter for the Company and bring to a strong close the best year in Intel's history.

Revenue was up 24% for the year, and we crossed over the $40 billion mark for the first time ever. We exceeded previous records for gross margin, operating income, and earnings per share as well. The PC market grew approximately 17% worldwide in 2010. Not only is the market expanding, but our customers and end users are embracing our performance leadership and purchasing a richer mix of our products, which led to a rise in our ASP in 2010.

One of the notable standout performers in the fourth quarter was our Data Center Group. The world of PC, plus new emerging computing devices is increasing the demand for servers of all types. Our Data Center Group had yet another terrific quarter, with revenue up 15% sequentially and annual revenue up, a very strong 35%. So, what is driving this growth in servers and will it continue?

Let me share with you some data that can help put the server market in perspective. In 2010, total traffic crossing the internet was roughly 245 exabytes. This is greater than all the previous years combined. Over the next five years a billion more people will join the global online community, with 15 billion new connected devices including PCs, smartphones, tablets, embedded devices and smart TVs.

We estimate this will increase the data footprint across the Internet to over 1,000 exabytes, more people, more devices, more usages. This dynamic will require high-performing servers from Intel for years to come. It is not just servers.

Intel continues to grow its presence in the Data Center with processors for storage systems and networking infrastructure, with plans to refresh the entire Xeon server product line in the first half of 2011. Intel is very well positioned to benefit from the growth of the Data Center and the build out of cloud computing.

Next, I want to comment on our Atom business. The industry shipped around 37 million netbook units for the year, which represents a 20% growth rate. In 2011, Intel plans to bring some unique innovations to netbooks to keep the category growing, including increased feature sets in products for mature markets, and lower price points in emerging markets that will attract first-time buyers. But Atom is much more than netbooks.

We exit 2010, with excellent momentum in our embedded business, with over 4,900 total design engagements and over 1,700 design wins for Embedded Atom devices. It's notable that nearly one half of all the Atom embedded design win activity is coming from China. I mentioned this momentum to highlight that the main drivers of our success with Atom in

the embedded business segment are very applicable to the smartphone, tablet and consumer electronic market segments.

Software comparability, performance, power and architectural consistency really matter to our customers, and the success we're having with Atom in the embedded segments is an excellent proof point of our value proposition. Many of the wins in this space are architectural conversions against ARM and MIPS. In 2011, you will also see Atom in a wider ray of tablets running three different operating systems, Windows, Android, and MeeGo.

Seven of these tablets have been announced by their manufacturers with many more in the pipeline for rollout this year. In 2011, you will also see Atom processors appear in smartphones, operating at very competitive power levels with performance that will lead the industry, demonstrating Intel’s advantages in this most important category.

Let me turn my focus for a minute to what’s ahead. In 2011 everything gets better. The economy is forecasted to improve, our product line refreshes from top to bottom and our addressable market expands. With the PC industry now shipping over 1 million units a day, we entered 2011 by launching the best microprocessor we have every built.

As you are all aware, we introduced our Sandy Bridge processor family at CES last week. We think this ultimately will be as transformational to PCs as Nehalem been to servers. With over 500 design wins, our customers are embracing this product. When you get your hands on a Sandy Bridge PC, you will realize that this is more than just a very fast microprocessor. It’s a visually stunning computing experience.

The combination of an improving economy and the best product line-up in our history, gives us confidence that we can grow our revenues by approximately 20% in 2011, and this forecast is before any contributions from the proposed acquisitions of the Infineon's Wireless Solutions division and McAfee.

As we approach our 22-nanometer transition, we are increasing our investments in manufacturing to capture what we believe is a significant opportunity for growth. Stacy will walk you through more details in just in a moment, but in short the market opportunities for our 22-nanometer products are outstanding. As a result, we are growing from the model of three high volume leading-edge manufacturing fabs to four

Our 22-nanometer process will be the foundation for growing PC and server segments, as well as a broad family of Atom-based SoCs, serving smartphones, tablets, smart TVs, and other embedded devices.

Many of you have asked us questions about how we will compete with ARM in the new segments of mobile computing. Our answer is very simple. As we have done for decades in the traditional computing markets, we will apply the world's most advanced silicon transistor technology to these new segments to deliver the lowest power, highest performance, lowest cost products on the planet.

When these chips are combined with our support for the world's leading mobile operating systems, our proven ability to create broad ecosystem support and our growing software capabilities, I'm confident we will be very successful in these segments. These investments are the strongest possible statement of our confidence in our business model and our growth opportunities, and will extend our technology advantage even further.

With that, let me turn it over to Stacy.

Stacy Smith

Thanks, Paul. I just want to clarify one thing real quick. We're all getting used to saying 2011 over 2010. Paul meant 10% revenue growth in 2011 over 2010 is the expectation that we're setting. So, 2010 was the most profitable year in our history, as the trends we discussed at the May Investor Meeting played out.

The emerging markets, notebooks, and server demand, all exceeded 20% growth year-on-year. The consumer market, despite a mid-summer pause, driven by the European debt crisis, still grew at a mid-teens growth rate. All of these demand drivers led to an $8.5 billion increase in revenue to $43.6 billion, up 24% year-on-year and our best year ever.

Our manufacturing process technology lead extended in 2010, enabling a next generation of leadership products, which drove higher average selling prices year-on-year. Our continued focus on factory reuse and efficiency drove cost down again in 2010 lifting gross margin to a record 66%. A noteworthy achievement is that as a result of the combination of our responsiveness of the downturn and our focus on factory productivity, we're able to offset almost half of the required capital investment at 32-nanometer through reuse of equipment.

Spending as a percent of revenue dropped year-on-year to 29.5%. We also saw significant improvements in our NAND business. All of these things contributed to making 2010 our most profitable year ever. While revenue, gross margin, operating profit, net income and earnings per share were all records, two metrics worth highlighting are that we achieved operating income of $15.9 billion, 32% higher than the next highest year and our best ever revenue per employee of 529,000.

The fourth quarter was in line with our expectations and was a good finish to an outstanding year. We achieved record quarterly revenue of $11.5 billion despite continued softness in the consumer market segment.

Demand was strong in the enterprise market, specifically for servers. The quarterly gross margin at 67.5% benefited from both lower inventory write-offs as we qualified the Sandy Bridge product line for sale, and slightly higher average selling prices due a richer mix of server products.

Operating income was $4.3 billion, 38% of revenue. Net income of $3.4 billion and earnings per share of $0.59 were both records. The strength of our business can be seen in the balance sheet. Total cash investments ended the year at $21.5 billion, $1.2 billion higher than the third quarter and $7.6 billion higher than the end of 2009.

For the year, we generated approximately $16.7 billion in cash from operations. We purchased $5.2 billion in capital assets, paid $3.5 billion in dividends, and repurchased $1.5 billion in stock. We returned over $5 billion of cash to shareholders in 2010.

For the year, we increased the dividend by 12.5% and resumed stock repurchases in the fourth quarter. We also announced an incremental 15% increase in the dividend that will go into effect in 2011.

Turning to 2011, we are planning on continued growth in our core businesses resulting in approximately 10% revenue growth. We are forecasting continued strong gross margins with the mid-point of our annual range at 65%.

In support of expected strong unit growth in our core businesses and the movement of graphics transistors to our leading edge process technology, we're forecasting an increase in capital spending to $9 billion as we build and equip an incremental high volume manufacturing factory at 22-nanometer.

We are also forecasting an increase of over $700 million in research and development investments as we look to extend our leadership in PCs and servers and design further generations of products to increase our offerings in adjacent market segments like smartphones and tablets.

2010 reinforced our view that the demand drivers that we talked about in May, emerging markets, notebooks, consumers and servers translate into significant revenue growth for Intel and that the work that we have done on our cost structure translates into exceptional financial results.

As we move into 2011, we are planning for an even better year. As we start the year, the product line in our Core business is outstanding as Sandy

Bridge ramps into the marketplace. Our cost will come down even more in 2011. Our manufacturing advantage will continue to extend, which coupled with our roadmap of low-power products will expand our participation in fast growing segments of the market for devices that compute and connect to the internet.

With that, let me turn it back over to Kevin.

Kevin Sellers

Okay. Thanks, Stacy and Paul. We'll now move to Q&A. We'd like to ask each participant to limit themselves to one question and one follow-up, if you have one. So Marcello, we'll now take our first questioner.

Question-and-Answer Session

Operator

(Operator instructions) Your first question comes from the line of Alex Gauna with JMP Securities.

Alex Gauna – JMP Securities

I wanted to start by asking how you feel the OEM partnerships that you have are distinguishing between the roadmaps on the Sandy Bridge architecture from what you've got on Oak Trail and Atoms? I say that because I've noticed at CES you do have your first tablet win for Sandy Bridge on the Core i5 and I know you're moving ahead pretty aggressively on your process geometries.

Paul Otellini

At this point the only people I'm aware of using Sandy Bridge or Core processors in tablets are those focusing on Win 7 tablets. The design momentum that I've seen in Android and in MeeGo is focused more on kind of an iPad apps-centric model, applet-centric model. Those that are doing real Windows and one that have the Windows compatibility and the full Windows stack, there's a few of those like the one you mentioned and then also the Acer one with the two screens, which is sort of a tablet-laptop combo that are running Core-based products.

Alex Gauna – JMP Securities

A follow-up if I could. How are the Android developer partners you have differentiating between what they can do with the Atom or Oak Trail roadmap versus with the ARM-based systems?

Paul Otellini

Well, at the OS level there shouldn't be any difference. We should both run the same operating system, the same interfaces, the same access to the marketplace applications and so forth. Our value proposition is really twofold for the OEMs. One, we believe that we will offer higher performance in comparable battery life configurations, and number two, by designing an Atom-based tablet they have the opportunity to run multiple OS's on it, which is I think a unique value proposition with Intel at this point.

Operator

Your next question comes from the line of Craig Ellis with Caris & Company.

Craig Ellis – Caris & Company

On the 10% growth for this year, can you provide us with some of the gives and takes you should think about parts of the portfolio that could do potentially better than that, and then what would be below the 10% line?

Stacy Smith

Yeah. I probably won't get to that level of specificity. I'll go back to what we said at the Investor Meeting in May. The drivers of our business right now are emerging markets. It's the consumer segment of the market. Then we're seeing a build out of that cloud infrastructure, which is driving our server results. I'll really highlight the emerging market piece of this because if I just look at the business it's 2 to 1 in terms of unit growth coming from emerging markets versus mature as we think out over the next several years. The dynamic that's going on there, it's a simple one of economics from my perspective. The price of technology has come down to the point that billions more people can afford that technology and that's highly desirable and if I may, I'll use China as the example. If you go back to the mid-90s, it was on average of 175 weeks of income for somebody to be able to afford a notebook computer. If you fast forward to 2010, it's now seven weeks of income in China on average for somebody to afford the computer, see a 1.4 billion people that where the price of computing is coming into a range that is affordable and it's a big deal to them, because it's how they move into the knowledge-based economy. So, that I think is the big driver of our business, and has been last few years. It's likely to be over the next several years.

Paul Otellini

If I could just tag onto that Stacy, Greg for planning purposes inside of our number set that we've, the 10% that we forecasted, we're assuming a low to mid-teens PC market growth rate in units.

Craig Ellis – Caris & Company

Paul this at low to mid-teens growth rate include tablets or exclude tablets?

Paul Otellini

Exclude.

Craig Ellis – Caris & Company

As a follow-up, as we think about the design wins that the Company has in tablets and we can certainly count numbers that are in the 10s to 20s, as we look at our own research. When do we hit the sweet spot of the ramp for Intel in 2011 for the tablet products that it'll be shipping into?

Paul Otellini

I think its operating system dependant. Unlike bringing up Sandy Bridge, we've got an installed base of PC software, right. It's just ready and able to take advantage of it. These things have to be tuned to their unique environments. So, from a launch perspective, the ones that have been and I'm not going to give you launch dates, but the ones that have been announced so far, are on Windows 7 and on Android and then in the second half of the year, you will see MeeGo. So, it really is a building momentum over the course of the year on all three operating systems.

Operator

Your next question comes from the line of Shawn Webster with Macquarie.

Shawn Webster – Macquarie

Paul, can you share with us your thoughts, I guess longer term on capital intensity. The capital expenditure new guidance you gave as $9 billion at roughly 55% of your expected cost of goods sold or so is pretty high. Do you expect this to be a peak over this cycle or longer terms, because of the graphics and some of the other things you mentioned, do you expect it to be at a higher level than what we're used to seeing?

Stacy Smith

Let me first talk about what's driving the increase in capital and then, I'll end with a few words on capital intensity, if you'll allow that, Shawn. The primary

driver of what's taking us from a three factory model, three high volume manufacturing models to four high volume manufacturing model is the unit growth that we've experienced over the last couple of years and that we expect going forward. I think you can really see how our business is growing when you look out what's happened over the last couple of years. In 2010 and with our focus for 2011, we're growing our revenues by $13 billion, that's more than a one-third growth versus where we were in 2008, where we were in 2009. So, you can see that businesses growth is a primary driver of what's taking us into a four factory model. Behind that what you are seeing as that we're being very aggressive of moving transistors to that leading-edge process technology and we do that, because we get paid for that process technology leadership. We get paid in terms of having lower costs. What was really striking in 2010, as we started the transition of graphics processors to that leading edge, we got paid in terms of the rising ASP because of the performance of the products. So, there is very high ROI for us that we are uniquely situated to take advantage of because of our process technology leadership. Those two things in conjunction take us from three to a four factory network.

Shawn Webster – Macquarie

My follow-up then is, can you comment on Microsoft's announcement last week in terms of them supporting their operating system on ARM. What's your view on it and what are your responses?

Paul Otellini

I view it as being not a lot of new news and I can see positives and negatives for Intel in this announcement. Historically, Microsoft has only supported ARM in their phone OS and in their consumer electronics OS. So they have had ARM support for some time. In fact, in big Windows it had support for Alpha, PowerPC, MIPS and at one point ARM on the Vista program that they dropped. So this is nothing really new from that perspective. The plus for Intel is that, as they unify their operating systems, we now have the ability for the first time, one to have design from scratch, touch enabled operating system for tablets that runs on Intel that we don't have today. Secondly, we have the ability to put our lowest power Intel processors running Windows 8 or next generation Windows into phones, because of the same OS stack and I look at that as an upside opportunity for us. On the downside there is a potential given that Office runs on this products for – there is some creep up coming into, let's say PC space. I am skeptical of that for two reasons. One, that space has a different set of power performance requirements where Intel is exceptionally good. Secondly, users of those machines expect legacy support in terms of

software and peripherals that has to all be enabled from scratch for those devices.

Stacy Smith

I just want to go back. You let me off the hook a little bit too early there in terms of the increase in capital, when you look at 32 versus 22. So, I also want to put that in perspective. It was in my written remarks, but I want to make sure it's clear. One of the benefits that we had at 32-nanometer was that as the downturn hit us, we were able to very quickly take capacity that we had put in place for 45 nanometers, factories that we had put in place for 45-nanometer and upgrade those to offset some of the required investment at 32. I think that was a level of responsiveness that you haven't seen out of Intel in the past. We take advantage of the fact that we build in that backwards compatibility in our capital model of record, and we were actually able to offset half of the capital required at 32 by utilizing investment that we had already made in factories for 45-nanometer. What that means is, at 32 we got in essence three factories for the capital cost of two, and then it's the unit demand and the movement of transistors to a leading-edge process technology that then takes us from three to four. That helps you put in perspective the size of that job as you go from the 32-nanometer node to the 22-nanometer node.

Operator

Your next question comes from the line of Mark Lipacis with Morgan Stanley.

Mark Lipacis – Morgan Stanley

When do you expect to start shipping the 22-nanometer products into production systems? Paul, you may have mentioned this, I think I may have missed it, can you help us understand to what extent do you think about using the incremental 22-nanometer capacity for PC microprocessors versus tablets or cell phone microprocessors?

Paul Otellini

Well, we haven't given out the product schedules for 22-nanometer. So let me give you a status at least in much detail as I'm willing to get to make public. We have finished development of the process. We are in yield learning deployment right now, running test ships in there, ramping the yields up on the technology. We have completed the design of our first microprocessor and have working microprocessors on that technology. At this point in time our plan is to ramp production wafers of that technology in the second half of this year with products launched at some point to follow.

Stacy Smith

The second part of your question, Mark, was around the…

Paul Otellini

SoC.

Stacy Smith

22-nanometer?

Paul Otellini

Yeah. We're building some on 32 now and then the initial products on 22 will be the mainstream microprocessors, because we want to use every early wafer we can for those products, but we will move as rapidly to 22 as possible for the non-PC part of the product line.

Mark Lipacis – Morgan Stanley

If I could just follow-up, the CapEx, how should we think about that getting cut between the faster depreciation schedule for equipment versus slower depreciation schedule for buildings?

Stacy Smith

The lion's share is going to be equipment. That investment bucket, the lion's shares equipment, you'll see a little more factory spending than what you've seen in the past, but it's the equipment to fill the factory that ends up being expensive, and you can see that in the depreciation forecasted goes up from $4.2 billion in 2010 to $5 billion in 2011.

Operator

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

Kevin Cassidy – Stifel Nicolaus

Maybe just to ask a little more about the 22-nanometer conversion with the SoCs, are you comfortable, you have the design wins now to fill that fab?

Stacy Smith

The 2011 capital spending of $9 billion is the dollars are really being driven by the server and PC business. That's what's driving the increase in the unit CAGR. Those are big die. Remember the products that we have in smartphones, the products that we have in tablets by design are very small

die. It doesn't drive a big capital spend for us. Don't take from that though that it's not important to get those products to 22-nanometer that process leadership is what lets us bring down the cost, bring down the power and provide more performance at any given level of power. So, it's strategically really important, but it's not the driver of the $9 billion of capital in 2011.

Kevin Cassidy – Stifel Nicolaus

If I could just follow up with, you're saying mid-teens in unit growth, it's assuming ASPs will come down, they were up last year, why do you think ASPs will down in 2011?

Stacy Smith

Just to say you don't bid us up here, Paul said low to mid teens in unit growth for 2011 and 10% revenue growth, you still get to the same question, which is, that would suggest ASPs come down a little in 2011 to kind of make that revenue number work. I'll be the first to admit this is the place where I have been wrong over the course of 2010. I did not anticipate ASPs going up to the extent that they had, the Company has surprised me positively the ability to extend the technology leadership over the competition and get paid for that leadership. That said, my thesis on the market is that the areas where we see robust growth. So remember what I said, emerging markets 2 to 1 over mature; the consumer market 2 to 1 over the business market. Those areas benefit from the standpoint that system price points come down over time, and we get a little bit of a mix down. So I believe that we're going to see, just based on that mix effect pricing coming down over time. I'll also say it's one of those places where I'd love to be wrong. The Company is working hard to try to prove me wrong, but inherent my forecast is that pricing comes down some based on growth in consumer and growth in emerging markets in 2011, and I think that trend is the one I'm betting on for the next several years.

Operator

Your next question comes from the line of Patrick Wang with Wedbush Securities.

Patrick Wang – Wedbush Securities

My first one, I just want to think a little bit about the enterprise refresh cycle. You guys had a pretty good year last year. Client was clearly a bit softer. Just curious how far you think we're into the current upgrade cycle for enterprise? Also where do you think you'd actually see strength in the client or consumer side over the course of 2011?

Paul Otellini

It's hard to put a number on it. My sense is given that the corporate refresh started not on the first day of last year is that we're not halfway yet. There is a whole bunch of people that have not upgraded to Windows 7 and that intend to. I do think that Sandy Bridge there may be some momentum built up ahead of that in terms of people wanting those products. Remember the IT version Service Pack 1 version of Win 7 wasn't released until mid last year or August-September timeframe. So you really have the tailing edge of the IT shops, the ones that wait for SP1 still to go and so implicit in our numbers when I gave low-to-mid teens is a pretty robust corporate refresh cycle continuing in 2011. In terms of client parts of the business next year or this year rather, I think Stacy nailed it. We look for consumers and particularly in emerging markets continuing to be the driver of that part of the business in notebooks rather.

Stacy Smith

If I make one other point on the server market, which I was struck by when I was looking at our 2010 results and Paul touched about in his speech, I think there's a secular trend here in terms of the build out of the cloud infrastructure and while that still is a relatively small percentage of the total of our server business, it's growing exceptionally fast and I was surprised that it generated one-third of the unit growth in servers from 2009 to 2010. That's a trend that I think carries forward into the future. The information moves to the cloud, all these devices compute and connect. I think that continues to driver server results for a number of years.

Patrick Wang – Wedbush Securities

I also want to talk a little bit about chipset. In the fourth quarter chipset for your client business was down 4% sequentially. Can you talk about what you saw there and given that there should be an impact from the ramp to Sandy Bridge and upgrading chipset to the 67, 66 series, how you feel about that tracking here in the first quarter?

Stacy Smith

I think it was as simple as what we said at the beginning. The quarter actually unfolded very much like we expected which is nice when that happens. We saw people bleeding off some of the older generation technology from an inventory standpoint, which impacted our sales that's why we're below seasonal, that's why chipsets were below seasonal. I think one of the things you have to think through as the world moves to notebook, the chipset is a leading indicator that thesis no longer exists. You don't have nearly a larger marketing where people are populating a motherboard with

the chipset and everything else, and waiting for a CPU. It's all happening in Taiwan and its being integrated commensurate with each other, and so it's not the leading indicator that we believed in the 90s.

Operator

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

John Pitzer – Credit Suisse

Paul, when you look at the Data Center Group and the sequential growth in the fourth quarter, I'm wondering you can help me understand how much of that was unit versus ASP and as you look at the balance of 2011, is there a lot that mix can do to help average selling price, as you look at that market unfold this year?

Paul Otellini

I'm not giving a lot of granularity there, John. I can tell you that over the course of the year, one of the reasons that we did increasingly well in Data Center was the shift to MP, as the MP products we're shipping and that includes those Internet Data Center deployment that Stacy was just talking about. Most of the big portals used four-way machines running, 6-cores now going to 8-cores this year, so there is about the most power compute-intensive consumers we have on the planet. So, going into 2010, I think that's still a driver, I think that the Nehalem value proposition is still very critical for, let me say, classic Data Centers, Enterprise Data Centers we still haven't finished anywhere near swapping out all the old systems. The same kind of ROI that we saw work in 2010 will apply in 2011 for those companies.

Stacy Smith

It was one of those great years, we saw a strong unit growth and strong ASP increases based on our technology in the Data Center Group and that drove the strong year-on-year results.

John Pitzer – Credit Suisse

As my follow on, when you look at Sandy Bridge and its impact on the discrete graphics market. What's your view as this year unfolds and I guess, if Sandy Bridge starts to allow OEMs to take discrete graphics cards out of systems, and yet still, provide to capture some of the ASP benefit of the graphics capability from Sandy Bridge, how much ASP leverage do you think you can get out of that product cycle?

Paul Otellini

I think it's healthy, but the biggest leverage, I mean, given that I'm quite confident that Sandy Bridge is going to be a home run, in fact, at CES, I said that, in 2011, Sandy Bridge alone will represent over 30% of Intel's corporate revenues. So, we're very, very confident of the product and its acceptance. The biggest thing for us is sell-up inside the Sandy Bridge family, because as we – we will populate Sandy Bridge across multiple price points over the course of the year, but we'll maintain some of the premium feature sets, like the Intel Insider for high-value content that we announced at CES. We'll maintain those at the Core i5 and i7 brands. So, we'll do sell-up in those over the course of the year. That will be the focus versus, can the OEMs shave a bit off the building materials. They will certainly do that, but as everybody does that, that just brings the pricing to equilibrium.

Operator

Your next question comes from the line of Doug Freedman with Gleacher & Company.

Doug Freedman – Gleacher & Company

If I could start with just how are we to think about the impact of the extra week, and if we're to assume sort of a full 7% revenue impact, I get somewhere between $700 million and $900 million impact to Q1. Should we think about that, and then how do we think about that going forward to Q2, both on the revenue and OpEx lines?

Stacy Smith

So, the beauty, as we know what the extra week was, because what we're doing as we're resetting the calendar such that our year end is more towards New Year versus Christmas, and we know what the billings were between Christmas and New Year. As you can imagine, it's not an average week, it's a low week. So, when you take into account, the actual billings we saw that we – what you'd say about Q1 is because of the ramp in billing of Sandy Bridge, it's a bit about seasonal. More granular on that I'm not going to get, I'm not going to provide a forecast yet for Q2. We want to get through Q1 and then we'll have that conversation.

Doug Freedman – Gleacher & Company

How about on the OpEx side, would we think that you capture an extra week of OpEx that the OpEx goes away in Q2?

Stacy Smith

OpEx is much more predictable like that, because you do – people actually want to be paid, even though we're adding an extra week. So, we know that we have more OpEx in Q1 and we have a week less in Q2, and our spending pretty much will reflect that.

Doug Freedman – Gleacher & Company

If I could for my follow-up, move on to a different topic. Acquisitions, there has been some issues, trying to get some of them closed by the end of the year, I know was the target. Last quarter you were kind enough to offer us the commentary that no big further acquisitions were planned. I wanted to see if I could get you to repeat that statement and give us an update on where you stand?

Stacy Smith

So, first the status of acquisition in Infineon, we expect that it's closing in the next several weeks, all the regulatory approvals that have been received on that. On McAfee is going to be dependent on whether we get a request for more information from the European Union. If we don't it could close in Q1, if we do it's likely to move in the Q2. I was really clear on the call last time that what I was going to say when I got this question was, we don't comment on a forward -looking basis on acquisitions and that's the answer you are going to get. So, we don't comment on forward-looking acquisitions.

Operator

Your next question comes from the line of Stacy Rasgon with Sanford C. Bernstein.

Stacy Rasgon – Sanford Bernstein

Just a brief one on the 2011 gross margin guidance. I was wondering if you can give us a little bit of feeling on where you might see the most volatility in terms of those drivers. What are the things you think are pushing towards the higher end of that, versus the lower end of that? What will be the bigger drivers for that for 2011?

Stacy Smith

Let me just start by doing 2010 to 2011 reconciliation in currency, and currently how I am thinking of gross margin. In 2010 it was 66%. We are forecasting 65% for 2011. As is pretty predictable, because we are on a two-year cadence of process technology, 2011 is year where we are going to see elevated start-up cost. So that takes me down about 3 points of gross margin. As my unit costs come down and my CPUs and chipsets, and my

platform business, that gets back about a point of gross margin. Then I am expecting higher revenue in my platform businesses and that's worth another point of gross margin. That's how I get to a point down. In terms of volatility, the start-up costs are pretty predictable. The thing that got me in 2010 was ASP and based on where we're seeing growth, in which segments, that could be off on ASP based on the competitive dynamics, that could be off on ASP. So that tends to be the thing that is most volatile. Then behind that is business levels. If business is robust and we're running factories, it's beneficial to gross margin. If we have an economic shock that causes demand to fall, we'll see a decline in gross margin. So those two things are likely I think to cause some volatility to gross margin as we go forward.

Stacy Rasgon – Sanford Bernstein

For my follow up, you've got Atom revenues that are it looks like pretty much flat for the quarter. So it doesn't look like netbook sales necessarily are falling off the cliff like people might be afraid of. But I was wondering if you could give us some feeling for how much of those Atom revenues might be netbook versus non-netbook related. Is the non-netbook portion material enough where you feel comfortable giving us at least just a ballpark estimate of how much it might be?

Stacy Smith

It's relatively small. The underlying growth rates of things like Atom that's moving into embedded applications is very high. We've talked about the progress that we've made in the back half of this year of winning the category of smart TV, and so if you look at first half versus second half, you see a high category in that unit growth rate, but it's still a relatively –

Paul Otellini

On netbooks specifically, I'll go back to what I've said in my comment, you may remember, a year ago, we had a problem in the fourth quarter of '09, where people bought ahead on chips from Intel, netbook chips from Intel and sales slowed down in the first quarter. So there was an anomaly. So what I've talked about in my commentary was the consumption of netbooks that we believe was 20% year-over-year, and actually it was probably up a bit in the fourth quarter as it is the seasonally strongest quarter for netbooks and even devices like tablets as some people buy them as Christmas presents. So looking into next year, what we forecast and project is yet another year of growth in netbooks.

Operator

Your next question comes from the line of Daniel Berenbaum with Auriga.

Daniel Berenbaum – Auriga

On operating profit, I mean just looking at the model or the guidance you've given for gross margin for R&D, it looks like operating margin would likely go down next year. When we think about – do you think about 2011 as more of an investment year or how should we think about what operating margin performance might look like over the course of the next couple of years? Or how we should think about a longer term model there?

Stacy Smith

First, I think your math is correct, right, gross comes down a point, we offset some of that – actually if we get a little better in terms of spending as a percent of revenue, but it doesn't offset that full point. That said, the operating margin is historically at high levels. I mean, we're running a gross margin that's in the mid-60s and our spending as a percent of revenue, as we've communicated our strategy of driving efficiency continues to improve. We are making significant investments in 2011 and they are investments that are really important to us. If you look onto the covers of the increase in spending from 2010 to 2011, it's predominantly R&D, that R&D is split between investments in our core business, investments in some of the important adjacencies like tablets and phones. We're investing more in process technology. We're investing more in software capabilities to bring all these devices together. So certainly Paul and I are looking at 2011 as a year, where we're making some big important investments that we think generate great returns for us in the future.

Daniel Berenbaum – Auriga

So are those multiyear investments or is it sort of a big rebuilding year or investment year or is it a multiyear investment?

Stacy Smith

I think you can look backwards and say we started making significant investments last year. Our investment profile increased a lot in '10. It's increasing more in '11. We'll make the decisions for '12 when we get there.

Daniel Berenbaum – Auriga

To follow-up on the capital side of the investments, you talked…?

Stacy Smith

Yeah, but I do want to just say one thing. You might have taken from what I just said that we're backing off from the commitment to continue to drive

spending as a percent of revenue. We're not backing away from that commitment, so we're taking advantage of a robust market in '10, a robust market in '11 to make some important investments, but we as a Company continue to have efficiency and productivity as one of the things that's got to be embedded in everything we do because it's critical to win in some of these new segments. So I just want to make sure that was clear from my prior statement.

Daniel Berenbaum – Auriga

On the capital side of your investment, you talked about the rationale for adding a fab is really being unit driven for your core business, but is there any foundry CapEx in there? You've actually talked about starting to do little bit of foundry work for some small customers. Was any of this specifically targeted at expanding your foundry business?

Stacy Smith

No, don't take from that again that we're not focused on that business, but it is nowhere nearing being a driver of CapEx for us in 2011. We're at a scale of $9 billion. It's not a driver.

Operator

Your next question comes from the line of Brendan Furlong with Miller Tabak.

Brendan Furlong – Miller Tabak

A quick question on the seasonality aspect of the year, could we look similar to 2010 where we had a better than season Q1 and worse than seasonal given the 10-year historical second half of the year?

Paul Otellini

We're not going to get to that granularity at this point, Brendan. We've provided our forecast for the first quarter. We've given you the expectation for the year. Let us get through Q1 and we'll give you the forecast for Q2.

Brendan Furlong – Miller Tabak

I guess my follow-up question is kind of circling back on the chipset question that somebody else asked. The chipsets as a percent of the CPU revenue or the Data Center Group has declined over the last eight quarters. It used to run about 20% of the total revenue and now they're running into mid-teens. Can you explain what that is, and is it going to bottom around here on the mid-teens?

Stacy Smith

I think off the top, it's the shift from DP to MP. More of the mix goes to MP, so you have more processors for chipsets.

Operator

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

Romit Shah – Nomura Securities

If your assumption is for ASPs to be down this year, why is that not factored into your gross margin reconciliation?

Paul Otellini

It's an interesting phenomenon in that we had ASPs up in '10 and so it gets a little – it's kind of counterintuitive because we don't see that a lot. So, if you think about the world from the standpoint of year-on-year change, it looks like the average for 2009 is about what the average is for 2010 and it doesn't pop out in the – I'm sorry, the average for '11 is about what the average was in 2010, and so you don't see it in the year-on-year recon. What you have to keep in mind is, over the course of 2010 our pricing went up, and so I ended at a higher level than my average, and from that I come down some over the course of 2011. Again, that's a place where we're fighting hard to make that not be true, but that is my expectation inside of the gross margin forecast.

Romit Shah – Nomura Securities

Just on the server business, several quarters a very good growth including Q4 and Paul, you highlighted some of the strong secular tailwinds. How does this segment influence your Q1 outlook and is there any seasonality in servers now?

Paul Otellini

I haven't dug into that for a while. I don't think so. We're seeing just pretty consistent growth. It tends to go in cycle, the cycle start up with Nehalem – seven quarters ago, I don't see it abating. It is historically, if I go back before the Internet Data Center bubbles, strong growth, the fourth quarter was always the strongest quarter for servers because, capital budgets expired, people brought servers before the year changed. I haven't seen that as being the driving trend for several years now.

Stacy Smith

I also agree. I don't think there is strong seasonal pattern to severs, but I will say, in Q1 in the guidance, the thing that causes us to be a little better than seasonal, once you adjust for that fourteenth week is the ramp in sales of Sandy Bridge. That's the driver in Q1 and that's not yet in the server market. So, you should assume from that, that it's the ramp in Sandy Bridge which is notebooks.

Romit Shah – Nomura Securities

So the fact that servers have been strong for so many quarters that trend doesn't concern you that a slowdown is eminent?

Stacy Smith

We do not see a cycle here where people finish the refresh and then we have a dip. The underlying traffic growth over the Internet and the shift to cloud data and services is its own trend and that alone will drive nice continued growth in the business.

Paul Otellini

Thank you, Romit. Thanks Marcello, and we want to thank everyone for joining our call today. As a reminder, our Quite Period for the first quarter 2011 will begin at the close of business on Friday, March 4, 2011. Our first quarter earnings conference call is scheduled for Tuesday, April 19, 2011. Thank you and good night.