INTEL CORP
Form 10-Q
May 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 2, 2011.

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from__________to__________

Commission File Number 000-06217

INTEL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-1672743 (I.R.S. Employer Identification No.)
2200 Mission College Boulevard, Santa Clara, California (Address of principal executive offices)	95054-1549 (Zip Code)

(408) 765-8080
(Registrant s telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Shares outstanding of the Registrant s common stock:

Class	Outstanding as of April 29, 2011
Common stock, $0.001 par value	5,302 million

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended	
(In Millions, Except Per Share Amounts)	April 2, 2011	March 27, 2010
Net revenue	**$ 12,847**	**$ 10,299**
Cost of sales	4,962	3,770
Gross margin	**7,885**	**6,529**
Research and development	1,916	1,564
Marketing, general and administrative	1,775	1,514
Amortization of acquisition-related intangibles	36	3
Operating expenses	**3,727**	**3,081**
Operating income	**4,158**	**3,448**
Gains (losses) on equity method investments, net	(42)	(39)
Gains (losses) on other equity investments, net	70	8
Interest and other, net	185	29
Income before taxes	**4,371**	**3,446**
Provision for taxes	1,211	1,004
Net income	**$ 3,160**	**$ 2,442**
Basic earnings per common share	**$ 0.58**	**$ 0.44**
Diluted earnings per common share	**$ 0.56**	**$ 0.43**
Cash dividends declared per common share	**$ 0.3624**	**$ 0.3150**
Weighted average common shares outstanding:		
Basic	**5,452**	**5,529**

Diluted	**5,606**	**5,681**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions, Except Par Value)	April 2, 2011	Dec. 25, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 4,188	$ 5,498
Short-term investments	3,536	11,294
Trading assets	4,254	5,093
Accounts receivable, net	3,542	2,867
Inventories	4,099	3,757
Deferred tax assets	1,906	1,488
Other current assets	1,270	1,614
Total current assets	**22,795**	**31,611**
Property, plant and equipment, net of accumulated depreciation of $33,453 ($32,582 as of December 25, 2010)	**19,559**	**17,899**
Marketable equity securities	**980**	**1,008**
Other long-term investments	**1,863**	**3,026**
Goodwill	**9,069**	**4,531**
Identified intangible assets, net	**6,872**	**860**
Other long-term assets	**4,414**	**4,251**
Total assets	**$ 65,552**	**$ 63,186**
Liabilities and stockholders equity		
Current liabilities:		
Short-term debt	$ 54	$ 38
Accounts payable	2,757	2,290
Accrued compensation and benefits	1,536	2,888
Accrued advertising	1,055	1,007
Deferred income	1,813	747
Income taxes payable	729	232
Other accrued liabilities	3,621	2,125
Total current liabilities	**11,565**	**9,327**
Long-term income taxes payable	**267**	**190**
Long-term debt	**2,083**	**2,077**
Long-term deferred tax liabilities	**1,783**	**926**
Other long-term liabilities	**2,505**	**1,236**
Contingencies (Note 24)		
Stockholders equity:		
Preferred stock		

Common stock and capital in excess of par value, 5,365 shares issued and 5,336 shares outstanding (5,581 issued and 5,511 outstanding as of December 25, 2010)	16,271	16,178
Accumulated other comprehensive income (loss)	481	333
Retained earnings	30,597	32,919
Total stockholders equity	**47,349**	**49,430**
Total liabilities and stockholders equity	**$ 65,552**	**$ 63,186**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended	
(In Millions)	**April 2, 2011**	**March 27, 2010**
Cash and cash equivalents, beginning of period	**$ 5,498**	**$ 3,987**
Cash flows provided by (used for) operating activities:		
Net income	3,160	2,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,287	1,080
Share-based compensation	300	248
Net loss on retirement of assets	36	33
Excess tax benefit from share-based payment arrangements	(1)	(2)
Amortization of intangibles	155	61
(Gains) losses on equity method investments, net	42	39
(Gains) losses on other equity investments, net	(70)	(8)
(Gains) losses on divestitures	(164)	
Deferred taxes	(109)	(6)
Changes in assets and liabilities:		
Accounts receivable	(504)	88
Inventories	(251)	(51)
Accounts payable	404	29
Accrued compensation and benefits	(1,401)	(1,095)
Income taxes payable and receivable	1,032	916
Other assets and liabilities	97	305
Total adjustments	853	1,637
Net cash provided by operating activities	**4,013**	**4,079**
Cash flows provided by (used for) investing activities:		
Additions to property, plant and equipment	(2,723)	(928)
Acquisitions, net of cash acquired	(8,216)	(37)
Purchases of available-for-sale investments	(3,569)	(3,235)
Sales of available-for-sale investments	7,594	218
Maturities of available-for-sale investments	5,172	2,397
Purchases of trading assets	(1,540)	(2,397)
Maturities and sales of trading assets	2,578	1,554
Origination of loans receivable		(249)
Investments in non-marketable equity investments	(147)	(69)
Return of equity method investments	24	70
Proceeds from divestitures	50	
Other investing	133	4
Net cash used for investing activities	**(644)**	**(2,672)**

Cash flows provided by (used for) financing activities:		
Increase (decrease) in short-term debt, net	16	158
Proceeds from government grants	56	79
Excess tax benefit from share-based payment arrangements	1	2
Proceeds from sales of shares through employee equity incentive plans	239	228
Repurchase of common stock	(4,006)	(3)
Payment of dividends to stockholders	(994)	(870)
Net cash used for financing activities	**(4,688)**	**(406)**
Effect of exchange rate fluctuations on cash and cash equivalents	**9**	
Net increase (decrease) in cash and cash equivalents	**(1,310)**	**1,001**
Cash and cash equivalents, end of period	**$ 4,188**	**$ 4,988**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	$	$
Income taxes, net of refunds	$ 269	$ 127

See accompanying notes.

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INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited

Note 1: Basis of Presentation

We prepared our interim consolidated condensed financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 25, 2010.

We have a 52- or 53-week fiscal year that ends on the last Saturday in December. Fiscal year 2011 is a 53-week fiscal year, and the first quarter of 2011 was a 14-week quarter. Fiscal year 2010 was a 52-week fiscal year, and the first quarter of 2010 was a 13-week quarter.

In the first quarter of 2011, we completed the acquisition of McAfee, Inc. (for further information, see Note 14: Acquisitions). Certain of the operations acquired from McAfee have a functional currency other than the U.S. dollar. As a result, translation adjustments have been recorded through accumulated other comprehensive income (loss) beginning in the first quarter of 2011.

We have made estimates and judgments affecting the amounts reported in our consolidated condensed financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. The accounting estimates that require our most significant, difficult, and subjective judgments include:

- the valuation of non-marketable equity investments and the determination of other-than-temporary impairments;
- the assessment of recoverability of long-lived assets (property, plant and equipment; goodwill; and identified intangibles);
- the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions);
- the valuation of inventory; and
- the recognition and measurement of loss contingencies.

The interim financial information is unaudited, but reflects all normal adjustments that are, in our opinion, necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2010.

Note 2: Accounting Policies

We have adopted additional revenue recognition accounting policies as they apply to the acquired McAfee business. Revenue from license agreements with our McAfee business generally includes service and support agreements for which the related revenue is deferred and recognized ratably over the performance period. Revenue derived from online subscription products is deferred and recognized ratably over the performance period. Professional services revenue is recognized as services are performed or if required, upon customer acceptance. For arrangements with multiple elements, including software licenses, maintenance, and/or services, revenue is allocated across the separately identified deliverables and may be recognized or deferred. When vendor-specific objective evidence (VSOE) does not exist for undelivered elements such as maintenance and support, the entire arrangement fee is recognized ratably over the performance period. Direct costs, such as costs related to revenue-sharing and royalty arrangements associated with license arrangements, as well as component costs associated with the product revenue, are deferred and amortized over the same period that the related revenue is recognized.

Note 3: Accounting Changes

In the first quarter of 2011, we adopted new standards for revenue recognition with multiple deliverables. These new standards change the determination of whether the individual deliverables included in a multiple-element arrangement may be treated as separate units for accounting purposes. Additionally, these new standards modify the method in which revenue is allocated to the separately identified deliverables. The adoption of these new standards did not have a significant impact on our consolidated condensed financial statements.

In the first quarter of 2011, we adopted new standards that remove certain tangible products and associated software from the scope of the software revenue recognition guidance. The adoption of these new standards did not have a significant impact on our consolidated condensed financial statements.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 4: Fair Value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use when pricing the asset or liability. Our financial assets and liabilities are measured and recorded at fair value, except for equity method investments, cost method investments, cost method loans receivable, and most of our liabilities.

Fair Value Hierarchy

The three levels of inputs that may be used to measure fair value are as follows:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include non-binding market consensus prices that can be corroborated with observable market data, as well as quoted prices that were adjusted for security-specific restrictions.

Level 3. Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities. Level 3 inputs also include non-binding market consensus prices or non-binding broker quotes that we were unable to corroborate with observable market data.

Marketable Debt Instruments

Marketable debt instruments include instruments such as commercial paper, corporate bonds, government bonds, bank deposits, asset-backed securities, municipal bonds, and money market fund deposits. When we use observable market prices for identical securities that are traded in less active markets, we classify our marketable debt instruments as Level 2. When observable market prices for identical securities are not available, we price our marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. We corroborate non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.

Our marketable debt instruments that are classified as Level 3 are classified as such due to the lack of observable market data to corroborate either the non-binding market consensus prices or the non-binding broker quotes. When observable market data is not available, we corroborate non-binding market consensus prices and non-binding broker quotes using available unobservable data.

INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Assets/Liabilities Measured and Recorded at Fair Value on a Recurring Basis

Assets and liabilities measured and recorded at fair value on a recurring basis consisted of the following types of instruments as of April 2, 2011 and December 25, 2010:

	April 2, 2011 Fair Value Measured and Recorded at Reporting Date Using				December 25, 2010 Fair Value Measured and Recorded at Reporting Date Using			
(In Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents:								
Commercial paper	$	$ 2,035	$	$ 2,035	$	$ 2,600	$	$ 2,600
Bank deposits		879		879		560		560
Money market fund deposits	342			342	34			34
Government bonds	144	44		188	1,279	505		1,784
Corporate bonds	4	12		16				
Short-term investments:								
Government bonds	423	767		1,190	4,890	1,320		6,210
Corporate bonds	43	1,101	3	1,147	121	1,378	1	1,500
Commercial paper		616		616		2,712		2,712
Bank deposits		570		570		858		858
Asset-backed securities			13	13			14	14
Trading assets:								
Government bonds	126	1,749		1,875	311	2,115		2,426
Corporate bonds	202	811		1,013	199	916		1,115
Marketable equity securities	520			520	388			388
Municipal bonds		368		368		375		375
Commercial paper		247		247		488		488
Asset-backed securities			168	168			190	190
Bank deposits		46		46		108		108
Money market fund deposits	17			17	3			3
Other current assets:								
Derivative assets		256		256		330		330
Marketable equity securities	955	25		980	785	223		1,008
Other long-term investments:								
Government bonds	15	1,080		1,095	83	2,002		2,085
Corporate bonds	128	449	62	639	104	601	50	755
Bank deposits		73		73		133		133
Asset-backed securities			56	56			53	53
Other long-term assets:								
Loans receivable		685		685		642		642
Derivative assets		8	36	44		19	31	50
Total assets measured and recorded at fair value	**$ 2,919**	**$ 11,821**	**$ 338**	**$ 15,078**	**$ 8,197**	**$ 17,885**	**$ 339**	**$ 26,421**

Liabilities								
Other accrued liabilities:								
Derivative liabilities	$	$ 214	$ 7	$ 221	$	$ 201	$ 7	$ 208
Long-term debt			130	130			128	128
Other long-term liabilities:								
Derivative liabilities		79		79		47		47
Total liabilities measured and recorded at fair value	**$**	**$ 293**	**$ 137**	**$ 430**	**$**	**$ 248**	**$ 135**	**$ 383**

Government bonds include bonds issued or deemed to be guaranteed by government entities, such as non-U.S. governments, U.S. Treasury securities, U.S. agency securities, and Federal Deposit Insurance Corporation (FDIC)-insured corporate bonds.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

The tables below present reconciliations for all assets and liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended April 2, 2011 and the twelve months ended December 25, 2010:

	Fair Value Measured and Recorded Using Significant Unobservable Inputs (Level 3)					
						Total
	Corporate	**Asset-Backed**	**Derivative**	**Derivative**	**Long-term**	**Gains**
(In Millions)						