INTEL CORP
Form 10-Q
May 03, 2007

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 March 31, 2007.

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	94-1672743
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2200 Mission College Boulevard, Santa Clara, California	95054-1549
(Address of principal executive offices)	(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer 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 at April 27, 2007
Common stock, $0.001 par value	5,810 million

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTEL CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

(In Millions, Except Per Share Amounts)	Three Months Ended March 31, 2007	April 1, 2006
Net revenue	**$ 8,852**	**$ 8,940**
Cost of sales	4,420	3,997
Gross margin	**4,432**	**4,943**
Research and development	1,400	1,562
Marketing, general and administrative	1,277	1,644
Restructuring and asset impairment charges	75	
Amortization of acquisition-related intangibles and costs	5	19
Operating expenses	**2,757**	**3,225**
Operating income	**1,675**	**1,718**
Gains on equity investments, net	29	2
Interest and other, net	169	154
Income before taxes	**1,873**	**1,874**
Provision for taxes	237	517
Net income	**$ 1,636**	**$ 1,357**
Basic earnings per common share	**$ 0.28**	**$ 0.23**
Diluted earnings per common share	**$ 0.28**	**$ 0.23**
Cash dividends declared per common share	**$ 0.225**	**$ 0.20**
Weighted average shares outstanding:		
Basic	**5,777**	**5,854**

Diluted	**5,874**	**5,954**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions)	**March 31, 2007**	**Dec. 30, 2006**
Assets		
Current assets:		
Cash and cash equivalents	$ 4,472	$ 6,598
Short-term investments	3,217	2,270
Trading assets	1,335	1,134
Accounts receivable, net	2,780	2,709
Inventories	4,366	4,314
Deferred tax assets	1,060	997
Other current assets	464	258
Total current assets	**17,694**	**18,280**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended	
(In Millions)	**March 31, 2007**	**April 1, 2006**
Cash and cash equivalents, beginning of period	**$ 6,598**	**$ 7,324**
Cash flows provided by (used for) operating activities:		
Net income	1,636	1,357
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,187	1,139
Share-based compensation	284	374
Restructuring, asset impairment, and net loss on retirement of assets	81	39
Excess tax benefit from share-based payment arrangements	(18)	(61)
Amortization of intangibles and other acquisition-related costs	64	75
(Gains) on equity investments, net	(29)	(2)
Deferred taxes	(150)	4
Changes in assets and liabilities:		
Trading assets	(201)	193
Accounts receivable	17	2
Inventories	(65)	(359)
Accounts payable	17	162
Accrued compensation and benefits	(723)	(927)
Income taxes payable and receivable	(432)	(43)
Other assets and liabilities	(116)	143
Total adjustments	(84)	739
Net cash provided by operating activities	**1,552**	**2,096**
Cash flows provided by (used for) investing activities:		
Additions to property, plant and equipment	(1,361)	(1,762)
Purchases of available-for-sale investments	(2,924)	(2,093)
Maturities and sales of available-for-sale investments	1,533	2,324
Purchases and investments in non-marketable equity investments	(489)	(577)
Other investing activities	25	(193)
Net cash used for investing activities	**(3,216)**	**(2,301)**
Cash flows provided by (used for) financing activities:		
(Decrease) in short-term debt, net	(42)	(84)
Proceeds from government grants	26	4
Excess tax benefit from share-based payment arrangements	18	61
Proceeds from sales of shares through employee equity incentive plans	586	376
Repurchase and retirement of common stock	(400)	(2,943)

Payment of dividends to stockholders	(650)	(585)
Net cash used for financing activities	**(462)**	**(3,171)**
Net (decrease) in cash and cash equivalents	**(2,126)**	**(3,376)**
Cash and cash equivalents, end of period	**$ 4,472**	**$ 3,948**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	$ 3	$ 5
Income taxes, net of refunds	$ 679	$ 558

See accompanying notes.

INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited

Note 1: Basis of Presentation

The company prepared the 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 Intel s Annual Report on Form 10-K for the year ended December 30, 2006. Management has made estimates and judgments affecting the amounts reported in these financial statements and the accompanying notes. The company s actual results may differ from management s estimates. The accounting estimates requiring management s most significant, difficult, and subjective judgments include:

the valuation of non-marketable equity investments;
the recognition and measurement of current and deferred income tax assets and liabilities;
the assessment of recoverability of long-lived assets;
the valuation of inventory; and
the valuation and recognition of share-based compensation.

The interim financial information is unaudited, but reflects all normal adjustments that are, in the opinion of management, necessary to provide a fair statement of results for the interim periods presented. This interim information should be read with the consolidated financial statements in the company s Annual Report on Form 10-K for the year ended December 30, 2006. Certain amounts reported in previous periods have been reclassified to conform to the current presentation.

Note 2: Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. The measurement and disclosure requirements are effective for the company beginning in the first quarter of fiscal 2008. The company is currently evaluating the impact of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value. The standard requires that unrealized gains and losses are reported in earnings for items measured using the fair value option. SFAS No. 159 is effective for the company beginning in the first quarter of fiscal year 2008. The company is currently evaluating the impact of SFAS No. 159.

Note 3: Accounting Changes

In the first quarter of 2007, the company adopted Emerging Issues Task Force Issue No. 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43 (EITF 06-2). EITF 06-2 requires companies to accrue the cost of such compensated absences over the service period. The company adopted EITF 06-2 through a cumulative-effect adjustment, resulting in an additional liability of $280 million, additional deferred tax assets of $99 million, and a reduction to retained earnings of $181 million in the first quarter of 2007.

The company also adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). See Note 14: Taxes for further discussion.

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

Note 4: Employee Equity Incentive Plans

The company s equity incentive plans are broad-based, long-term retention programs that are intended to attract and retain talented employees and align stockholder and employee interests.

Under the 2006 Equity Incentive Plan, 175 million shares of common stock were made available for issuance as equity awards to employees and non-employee directors through June 2008. A maximum of 80 million of these shares can be awarded as non-vested shares (restricted stock) or non-vested share units (restricted stock units). As of March 31, 2007, 160 million shares remain available for grant under the 2006 Equity Incentive Plan.

The 2006 Stock Purchase Plan allows eligible employees to purchase shares of Intel s common stock at 85% of the market price on specific dates. Under the 2006 Stock Purchase Plan, 240 million shares of common stock were made available for issuance through August 2011. As of March 31, 2007, 225 million shares are available for issuance under the 2006 Stock Purchase Plan.

Share-Based Compensation

The following table summarizes the share-based compensation charges:

	Three Months Ended	
(In Millions)	**March 31, 2007**	**April 1, 2006**
Cost of sales	$ 78	$ 86
Research and development	$ 114	$ 135
Marketing, general and administrative	$ 92	$ 153

During the first quarter of 2007, the tax benefit realized from option exercises and other awards totaled $31 million ($64 million for the first quarter of 2006).

The Black-Scholes option pricing model is used to estimate the fair value of options granted under the company s equity incentive plans and rights to acquire stock granted under the company s stock purchase plan. The weighted average estimated values of employee stock option grants and rights granted under the stock purchase plan, as well as the weighted average assumptions used in calculating these values during the first quarter of 2007 and 2006, were based on estimates at the date of grant as follows:

	Stock Options Three Months Ended March		Stock Purchase Plan Three Months Ended March	
	31, 2007	**April 1, 2006**	**31, 2007**	**April 1, 2006**
Estimated values	$ 5.78	$ 5.63	$ 4.72	$ 5.02
Expected life (in years)	6.5	4.5	.5	.5
Risk free interest rate	4.8%	4.4%	5.3%	4.7%
Volatility	26%	27%	26%	29%
Dividend yield	2.2%	1.8%	2.1%	1.8%

The expected life for options granted in the first quarter of 2007 reflects grants given to key officers and other senior-level employees with delayed vesting periods. Options with similar terms were not granted in the first quarter of 2006.

The company began issuing restricted stock units in the second quarter of 2006. The estimated fair value of restricted stock unit awards was calculated based on the market price of Intel common stock on the date of grant, reduced by the present value of dividends expected to be paid on Intel common stock prior to vesting. The weighted average estimated values of restricted stock unit grants, as well as the weighted average assumptions that were used in calculating fair value during the first quarter of 2007, were based on estimates at the date of grant as follows:

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

	Three Months Ended March 31, 2007
Estimated values	$ 19.33
Risk free interest rate	4.9%
Dividend yield	2.2%

Stock Option Awards

Information with respect to outstanding stock options as of March 31, 2007 was as follows:

(In Millions, Except Per Share Amounts)	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value[1]
December 30, 2006	**839.5**	**$ 26.98**	
Grants	1.9	$ 20.68	
Exercises	(19.3)	$ 18.28	$ 54
Cancellations and forfeitures	(33.8)	$ 31.59	
March 31, 2007	**788.3**	**$ 26.97**	
Options exercisable at:			
December 30, 2006	567.6	$ 28.66	
March 31, 2007	529.0	$ 28.71	

[1] *Represents the difference between the exercise price and the value of Intel stock at the time of exercise.*

Restricted Stock Unit Awards

Information with respect to outstanding restricted stock units as of March 31, 2007 was as follows:

(In Millions, Except Per Share Amounts)	Number of Shares	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value[1]
December 30, 2006	**27.4**	**$ 18.71**	
Granted	0.3	$ 19.33	
Vested		$	$
Forfeited	(0.9)	$ 18.67	

March 31, 2007	**26.8**	**$**	**18.72**

[1] *Represents the value of Intel stock on the date that the restricted stock units vest.*

Stock Purchase Plan

Under the 2006 Stock Purchase Plan, employees purchased 15 million shares for $234 million in the first quarter of 2007 (13.8 million shares for $245 million in the first quarter of 2006 under the 1976 Stock Participation Plan which is now expired).

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

Note 5: Earnings Per Share

The computation of basic and diluted earnings per common share was as follows:

		Three Months Ended	
		March 31,	April 1,
(In Millions, Except Per Share Amounts)		2007	2006
Net income		**$ 1,636**	**$ 1,357**
Weighted average common shares outstanding	**basic**	**5,777**	**5,854**
Dilutive effect of employee equity incentive plans		46	49
Dilutive effect of convertible debt		51	51
Weighted average common shares outstanding	**diluted**	**5,874**	**5,954**
Basic earnings per common share		**$ 0.28**	**$ 0.23**
Diluted earnings per common share		**$ 0.28**	**$ 0.23**

Basic earnings per common share was computed using net income and the weighted average number of common shares outstanding during the period. Diluted earnings per common share was computed using net income and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of stock options, assumed vesting of restricted stock units, and assumed issuance of stock under the stock purchase plan using the treasury stock method, as well as the assumed conversion of debt using the if-converted method.

For the first quarter of 2007, 566 million outstanding stock options (579 million for the first quarter of 2006) were excluded from the calculation of diluted earnings per common share because the exercise prices of these stock options were greater than or equal to the average market value of the common shares. These options could be included in future calculations if the average market value of the common shares increases and becomes greater than the exercise price of these options.

Note 6: Common Stock Repurchase Program

During the first quarter of 2007, the company repurchased 19.2 million shares of common stock at a cost of $400 million (138.5 million shares at a cost of $2.9 billion during the first quarter of 2006). Since the repurchase program began in 1990, the company has repurchased and retired approximately 2.85 billion shares at a cost of approximately $57 billion. As of March 31, 2007, $16.9 billion remained available under the existing repurchase authorization.

Note 7: Trading Assets

Trading assets at fair value at the end of each period were as follows:

(In Millions)	March 31, 2007	Dec. 30, 2006
Marketable debt securities	$ 877	$ 684
Equity securities offsetting deferred compensation	458	450
Total	**$ 1,335**	**$ 1,134**

All floating-rate asset-backed securities purchased after December 30, 2006 are designated as trading assets.

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

Note 8: Equity Investments

In March 2007, Clearwire Corporation completed an initial public offering (IPO) of 24 million shares of common stock at a price of $25 per share on The NASDAQ Global Select Market*. Intel s ownership interest in Clearwire decreased from approximately 27% as of December 30, 2006 to 23% as of March 31, 2007 as a result of the IPO. Intel s investment in Clearwire is classified within other long-term assets on the consolidated condensed balance sheet. Intel accounts for its investment in Clearwire under the equity method and therefore the investment is not carried at fair value. The equity method requires capital transactions that affect the investor s share of stockholders equity to be recognized. Accordingly, in the first quarter of 2007, Intel recognized a gain of $39 million within gains on equity investments, net, that was partially offset by Intel s proportionate share of Clearwire s operating loss, which is recorded on a one-quarter lag. Intel s carrying value for its investment in Clearwire as of March 31, 2007 was $630 million. Based on the quoted closing stock price as of March 30, 2007, the fair value of Intel s ownership interest in Clearwire was $751 million.

Note 9: Inventories

Inventories at the end of each period were as follows:

(In Millions)	March 31, 2007	Dec. 30, 2006
Raw materials	$ 670	$ 608
Work in process	2,187	2,044
Finished goods	1,509	1,662
Total	**$ 4,366**	**$ 4,314**

Note 10: Gains on Equity Investments, Net

Net gains on equity investments, which includes investments accounted for under the equity method and certain equity derivatives, for the first quarter of 2007 were $29 million compared to $2 million for the first quarter of 2006. The increase was primarily due to a gain of $39 million realized as a result of Clearwire s IPO (see Note 8: Equity Investments), partially offset by Intel s proportionate share of Clearwire s operating loss and higher impairment charges on equity investments ($36 million in the first quarter of 2007 and $23 million in the first quarter of 2006).

Note 11: Interest and Other, Net

Interest and other, net included:

	Three Months Ended	
(In Millions)	March 31, 2007	April 1, 2006
Interest income	$ 184	$ 168
Interest expense	(3)	(7)
Other, net	(12)	(7)
Total	**$ 169**	**$ 154**

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

Note 12: Comprehensive Income

The components of comprehensive income, net of tax, were as follows:

(In Millions)	Three Months Ended March 31, 2007	April 1, 2006
Net income	$ 1,636	$ 1,357
Change in net unrealized holding gain on available-for-sale investments	(34)	33
Change in net unrealized holding gain on derivatives	(1)	5
Total comprehensive income	**$ 1,601**	**$ 1,395**

The components of accumulated other comprehensive income (loss), net of tax, were as follows:

(In Millions)	March 31, 2007	Dec. 30, 2006
Accumulated net unrealized holding gain on available-for-sale investments	$ 79	$ 113
Accumulated net unrealized holding gain on derivatives	79	80
Accumulated net prior service costs	(16)	(16)
Accumulated net actuarial losses	(232)	(232)
Accumulated transition obligation	(2)	(2)
Total accumulated other comprehensive income (loss)	**$ (92)**	**$ (57)**

Note 13: Restructuring and Asset Impairment Charges

From the third quarter of 2006 through the first quarter of 2007, Intel incurred a total of $630 million in restructuring and asset impairment charges. These charges include a total of $259 million related to employee severance and benefit arrangements due to the termination of approximately 5,400 employees. During the first quarter of 2007, $21 million in restructuring charges, net of adjustments, related to employee severance and benefit arrangements were recorded.

From the third quarter of 2006 through the first quarter of 2007, Intel incurred a total of $371 million in asset impairment charges including $54 million during the first quarter of 2007 as a result of softer than anticipated market conditions relating to its Colorado Springs, Colorado facility, which was originally placed for sale and written down in the fourth quarter of 2006.

The following table summarizes the restructuring and asset impairment activity for the first quarter of 2007:

(In Millions)	Employee Severance and Benefits	Asset Impairment	Total
Accrued restructuring balance as of December 30, 2006	**$ 48**	**$**	**$ 48**
Additional accruals	24	54	78
Adjustments	(3)		(3)
Cash payments	(44)		(44)
Non-cash settlements		(54)	(54)

Accrued restructuring balance as of March 31, 2007	**$ 25**	**$**	**$ 25**

The additional accruals, net of adjustments have been reflected as restructuring and asset impairment charges on the consolidated condensed statements of income. The remaining accrual as of March 31, 2007 relates to severance benefits the company expects to pay in the next 12 months. As such, the restructuring accrual is recorded as a current liability within accrued compensation and benefits in the consolidated condensed balance sheets. In addition, Intel may incur additional restructuring charges in the future for employee severance and benefit arrangements, and facility-related or other exit activities.

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

Note 14: Taxes

Effective at the beginning of the first quarter of 2007, the company adopted the provision of FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

As a result of the implementation of FIN 48, the company reduced the liability for net unrecognized tax benefits by $181 million, and accounted for the reduction as a cumulative effect of a change in accounting principle that resulted in an increase to retained earnings of $181 million. The total amount of gross unrecognized tax benefits as of the date of adoption was $1.9 billion. The company historically classified unrecognized tax benefits in current taxes payable. As a result of adoption of FIN 48, unrecognized tax benefits were reclassified to long-term income taxes payable.

As a result of a settlement of certain federal tax audits with the U.S. Internal Revenue Service (IRS) during the first quarter of 2007, as described below, the total amount of gross unrecognized tax benefits was reduced by $739 million; of which $144 million became certain as a result of the settlement with the IRS described below, but has not yet been paid. Partially offsetting this decrease was an increase of $42 million relating to other activity within the first quarter of 2007. The total amount of gross unrecognized tax benefits was $1.2 billion as of March 31, 2007. These gross unrecognized tax benefits would affect the effective tax rate if realized.

The company s policy to include interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated condensed statements of income did not change as a result of implementing the provisions of FIN 48. As of the date of adoption of FIN 48, the company had accrued $257 million for the payment of interest and penalties relating to unrecognized tax benefits. During the first quarter of 2007, $109 million became certain as a result of the settlement with the IRS described below, but has not yet been paid, and $35 million was included as a net benefit in the provision for taxes, resulting in an ending accrued amount of $113 million.

The company files U.S. federal, U.S. state, and foreign tax returns. For state and foreign tax returns the company is generally no longer subject to tax examinations for years prior to 1996.

In connection with the regular examination of Intel s U.S. federal tax returns for the years 1999 through 2005, the IRS had formally assessed, in 2005 and 2006, certain adjustments to the amounts reflected by Intel on those returns as a tax benefit for the company s export sales. In March 2007, Intel received written notification from the IRS that it has closed its examination of the company s tax returns for the years 1999 to 2002, resolving a number of issues, including the tax benefit for export sales. Additionally, a resolution was reached with respect to the tax benefit for export sales for the years 2003 through 2005. As a result of the settlement, Intel reversed taxes payable and recorded a $326 million tax benefit (including related interest) in the first quarter of 2007.

Although timing of the resolution and/or closure on audits is highly uncertain, the company does not believe it is reasonably possible that the unrecognized tax benefits would materially change in the next 12 months.

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

Note 15: Identified Intangible Assets

Identified intangible assets are classified within other long-term assets on the consolidated condensed balance sheets. Identified intangible assets consisted of the following as of March 31, 2007:

(In Millions)	Gross Assets	Accumulated Amortization	Net
Intellectual property assets	$ 1,153	$ (478)	$ 675
Acquisition-related developed technology	4	(2)	2
Other intangible assets	389	(92)	297
Total identified intangible assets	**$ 1,546**	**$ (572)**	**$ 974**

Identified intangible assets consisted of the following as of December 30, 2006:

(In Millions)	Gross Assets	Accumulated Amortization	Net
Intellectual property assets	$ 1,143	$ (434)	$ 709
Acquisition-related developed technology	4	(2)	2
Other intangible assets	349	(73)	276
Total identified intangible assets	**$ 1,496**	**$ (509)**	**$ 987**

During the first quarter of 2007, Intel acquired intellectual property assets for $10 million with a weighted average life of five years and recorded additional other intangible assets of $40 million with a weighted average life of four years. All of the company s identified intangible assets are subject to amortization. Amortization of intellectual property assets was $44 million for the first quarter of 2007 ($46 million for the first quarter of 2006). The amortization of intellectual property assets is generally included in cost of sales on the consolidated condensed statements of income. Amortization of acquisition-related developed technology was less than $1 million for the first quarter of 2007 ($12 million for the first quarter of 2006) and is included in amortization of acquisition-related intangibles and costs on the consolidated condensed statements of income. Amortization of other intangible assets was $19 million for the first quarter of 2007 ($16 million for the first quarter of 2006). The amortization of other intangible assets is recorded as either amortization of acquisition-related intangibles and costs or as a reduction of revenue on the consolidated condensed statements of income.

Based on identified intangible assets recorded at March 31, 2007, and assuming the underlying assets are not impaired in the future, the amortization expense for each period is expected to be as follows:

(In Millions)	2007[1]	2008	2009	2010	2011
Intellectual property assets	$ 110	$ 144	$ 117	$ 105	$ 54
Acquisition-related developed technology	$ 1	$ 1	$	$	$
Other intangible assets	$ 68	$ 98	$ 121	$ 10	$

[1] *Reflects the remaining nine months of fiscal 2007.*

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

Note 16: Ventures

During January 2006, Micron Technology, Inc. and Intel formed IM Flash Technologies, LLC (IMFT). IMFT manufactures NAND flash memory products for Micron and Intel. Intel owns a 49% interest in this venture. Initial production from IMFT began in early 2006. Intel s maximum exposure to loss as a result of this venture is $1.6 billion as of March 31, 2007, which represents Intel s investment. Intel s investment in IMFT is classified within other long-term assets on the consolidated condensed balance sheets. Subject to certain conditions, Intel and Micron each agreed to contribute an additional $1.4 billion in the three years following the initial capital contributions. As of March 31, 2007, $965 million remained of Intel s $1.4 billion commitment. During the first quarter of 2007, IMFT billed Intel approximately $160 million primarily related to product and start-up costs. The amount IMFT billed Intel during the first quarter of 2006 was not significant.

In February 2007, Micron and Intel formed IM Flash Singapore, LLP (IMFS). IMFS will manufacture NAND flash memory products for Micron and Intel. Intel owns a 49% interest in this venture. Subject to certain conditions, Intel and Micron each agreed to contribute approximately $1.7 billion in the three years following formation. Intel had contributed $67 million of the $1.7 billion as of March 31, 2007.

IMFS is governed by a Board of Managers, with Intel and Micron initially appointing an equal number of managers to the Board of Managers. IMFS will operate until 2016, but is subject to prior termination under certain terms and conditions.

IMFS is a variable interest entity as defined by FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (FIN 46(R)), because all positive and negative variances in IMFS cost structure will be passed on to Intel and Micron through their purchase agreement with IMFS. However, Intel has determined that Intel is not the primary beneficiary of IMFS. Micron and Intel are also considered related parties under the provisions of FIN 46(R). Intel accounts for its interest in IMFS using the equity method of accounting. Intel s proportionate share of income or losses from its investment in IMFS will be recorded in gains (losses) on equity investments, net. Intel s maximum exposure to loss as a result of this venture is $67 million as of March 31, 2007, which represents Intel s investment. Intel s investment in IMFS is classified within other long-term assets on the consolidated condensed balance sheet.

Note 17: Contingencies

Tax Matters

In connection with the regular examination of Intel s tax returns for the years 1999 through 2005, the IRS had formally assessed adjustments to the amounts reflected by Intel on those returns as a tax benefit for export sales. In the first quarter of 2007, the company resolved these matters with the IRS. See Note 14: Taxes for further discussion. The IRS may make a claim related to the tax benefit for export sales for 2006. Management believes that the ultimate outcome will not materially affect the company s financial position, cash flows, or overall trends in results of operations.

Legal Proceedings

Intel is currently a party to various legal proceedings, including those noted in this section. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm the company s financial position, cash flows, or overall trends in results of operations, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include money damages or, in cases for which injunctive relief is sought, an injunction prohibiting Intel from selling one or more products. Were an unfavorable ruling to occur, the company s business or results of operations could be materially harmed.

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

Advanced Micro Devices, Inc. (AMD) and AMD International Sales & Service, Ltd. v. Intel Corporation and Intel Kabushiki Kaisha, and Related Consumer Class Actions and Government Investigations

In June 2005, AMD filed a complaint in the United States District Court for the District of Delaware alleging that Intel and Intel s Japanese subsidiary engaged in various actions in violation of the Sherman Act and the California Business and Professions Code, including providing secret and discriminatory discounts and rebates and intentionally interfering with prospective business advantages of AMD. AMD s complaint seeks unspecified treble damages, punitive damages, an injunction, and attorneys fees and costs. Subsequently, AMD s Japanese subsidiary also filed suits in the Tokyo High Court and the Tokyo District Court against Intel s Japanese subsidiary, asserting violations of Japan s Antimonopoly Law and alleging damages of approximately $55 million, plus various other costs and fees. At least 78 separate class actions, generally repeating AMD s allegations and asserting various consumer injuries, including that consumers in various states have been injured by paying higher prices for Intel microprocessors, have been filed in the U.S. District Courts for the Northern District of California, Southern District of California, and the District of Delaware, as well as in various California, Kansas, and Tennessee state courts. All the federal class actions have been consolidated by the Multidistrict Litigation Panel to the District of Delaware. All California class actions have been consolidated to the Superior Court of California in Santa Clara County. Intel disputes AMD s claims and the class-action claims, and intends to defend the lawsuits vigorously.

Intel is also subject to certain antitrust regulatory inquiries. In 2001, the European Commission commenced an investigation regarding claims by AMD that Intel used unfair business practices to persuade clients to buy Intel microprocessors. In June 2005, Intel received an inquiry from the Korea Fair Trade Commission requesting documents from Intel s Korean subsidiary related to marketing and rebate programs that Intel entered into with Korean PC manufacturers. Intel is cooperating with these agencies in their investigations and expects that these matters will be acceptably resolved.

Barbara s Sales, et al. v. Intel Corporation, Gateway Inc., Hewlett-Packard Co. and HPDirect, Inc.

In June 2002, plaintiffs filed a putative class action against Intel, Gateway Inc., Hewlett-Packard Company, and HPDirect, Inc. in the Third Judicial Circuit Court, Madison County, Illinois. The lawsuit alleges that the defendants advertisements and statements misled the public by suppressing and concealing the alleged material fact that systems containing Intel® Pentium® 4 processors are less powerful and slower than systems containing Intel® Pentium® III processors and a competitor s microprocessors. In July 2004, the court certified against Intel an Illinois-only class of certain end-use purchasers of certain Pentium 4 processors or computers containing these microprocessors. In January 2005, the Circuit Court granted a motion filed jointly by the plaintiffs and Intel that stayed the proceedings in the trial court pending review of the Circuit Court s class certification order. In July 2006, the Illinois Appellate Court, Fifth District, vacated the Circuit Court s class certification order and remanded the case to the Circuit Court with instructions to reconsider its class certification ruling applying California law. In August 2006, the Illinois Supreme Court agreed to review the Appellate Court s decision, and that review is pending. The plaintiffs seek unspecified damages and attorneys fees and costs. Intel disputes the plaintiffs claims and intends to defend the lawsuit vigorously.

AmberWave Systems Corporation v. Intel Corporation

Beginning in May 2005, AmberWave Systems Corporation and Intel filed a series of lawsuits against each other that were consolidated into actions in the United States District Court for the District of Delaware. AmberWave claimed that certain Intel semiconductor manufacturing processes infringed six AmberWave patents related to semiconductor fabrication. AmberWave sought damages, treble damages for alleged willful infringement, an injunction, and attorneys fees. Intel disputed AmberWave s allegations and defended the lawsuits vigorously. In February 2007, Intel entered into a license agreement with AmberWave under which, among other terms, Intel agreed to make certain payments to AmberWave, and AmberWave agreed to license AmberWave s patent portfolio to Intel. In March 2007, the Court dismissed the lawsuits with prejudice.

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

Transmeta Corporation v. Intel Corporation

In October 2006, Transmeta Corporation filed a lawsuit against Intel in the United States District Court for the District of Delaware. Transmeta alleges that Intel s P6, Pentium 4, Pentium® M, Intel® Core , and Intel® Core 2 processors infringe 10 Transmeta patents alleged to cover computer architecture and power-efficiency technologies. In December 2006, Transmeta filed an amended complaint alleging that Intel s processors infringe an eleventh Transmeta patent. Intel filed counterclaims against Transmeta alleging that Transmeta s Crusoe, Efficeon, and Efficeon 2 families of microprocessors infringe seven of Intel s patents. Transmeta seeks damages, treble damages, an injunction, and attorneys fees. Intel disputes Transmeta s allegations of infringement and intends to defend the lawsuit vigorously.

BIAX Corporation v. Intel Corporation and Analog Devices, Inc.

In May 2005, BIAX Corporation filed a lawsuit against Intel and Analog Devices, Inc. in the United States District Court for the Eastern District of Texas. The complaint alleges that certain Hyper-Threading-enabled processors, including Intel s Pentium and Xeon® processors supporting Hyper-Threading Technology, and Itanium® and Itanium® 2 processors, infringe four BIAX patents. The complaint alleges that Intel willfully infringed the patents and seeks damages, enhanced damages, injunctive, and other relief. A trial in this matter is currently scheduled to begin in early May 2007. Intel disputes the plaintiff s claims and intends to defend the lawsuit vigorously.

Note 18: Operating Segment Information

The company s operating segments include the Digital Enterprise Group, Mobility Group, Flash Memory Group, Digital Home Group, and Digital Health Group. Beginning in the first quarter of 2007, the Channel Platforms Group began directly supporting Intel s operating segments. Prior-period amounts have been adjusted retrospectively to reflect certain minor reorganizations.

The Chief Operating Decision Maker (CODM), as defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131), is the company s President and Chief Executive Officer. The CODM allocates resources to and assesses the performance of each operating segment using information about its revenue and operating income (loss) before interest and taxes.

The company reports the financial results of the following operating segments:

Digital Enterprise Group. Includes microprocessors and related chipsets and motherboards designed for the desktop and enterprise computing market segments; communications infrastructure components such as network processors, communications boards, and embedded processors; wired connectivity devices; and products for network and server storage.

Mobility Group. Includes microprocessors and related chipsets designed for the notebook computing market segment; and wireless connectivity products. Results of the Mobility Group in the first quarter of 2006 include sales of cellular baseband processors and application processors. In the fourth quarter of 2006, the company completed the sale of certain assets of Intel s communications and application processor business lines to Marvell Technology Group, Ltd. The results of the Mobility Group in the first quarter of 2007, therefore, include only sales of application and cellular baseband processors to Marvell in relation to a manufacturing and transition services agreement.

Flash Memory Group. Includes NOR flash memory products designed for cellular phones and embedded form factors; and NAND flash memory products manufactured by IMFT that are designed for memory cards, digital audio players, cellular phones, and computing and embedded platforms.

The Flash Memory Group, Digital Home Group, and Digital Health Group operating segments do not meet the quantitative thresholds for reportable segments as defined by SFAS No. 131. However, the Flash Memory Group is reported separately, as management believes that this information is useful to the reader. The Digital Home Group and Digital Health Group operating segments are included within the all other category.

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

The company has sales and marketing, manufacturing, finance, and administration groups. Expenses for these groups are generally allocated to the operating segments and the expenses are included in the operating results reported below. Additionally, in the first quarter of 2007, the company began allocating share-based compensation to the operating segments and adjusted results retrospectively to reflect this change. Revenue for the all other category primarily relates to microprocessors and related chipsets sold by the Digital Home Group. The all other category also includes certain corporate-level operating expenses. These expenses include:

- a portion of profit-dependent bonus and other expenses not allocated to the operating segments;
- results of operations of seed businesses that support the company s initiatives;
- acquisition-related costs, including amortization and any impairment of acquisition-related intangibles and goodwill;
- charges for purchased in-process research and development; and
- amounts included within restructuring and asset impairment charges in the consolidated condensed statements of income.

With the exception of goodwill, the company does not identify or allocate assets by operating segment, nor does the CODM evaluate operating segments using discrete asset information. The company does not report inter-segment revenue because the operating segments do not record it. The company does not allocate interest and other income, interest expense, or taxes to operating segments. Although the CODM uses operating income to evaluate the segments, operating costs included in one segment may benefit other segments. Except as discussed above, the accounting policies for segment reporting are the same as for Intel as a whole.

Segment information is summarized as follows:

	Three Months Ended	
(In Millions)	March 31, 2007	April 1, 2006
Net revenue		
Digital Enterprise Group		
Microprocessor revenue	$ 3,561	$ 3,892
Chipset, motherboard, and other revenue	1,193	1,255
	4,754	**5,147**
Mobility Group		
Microprocessor revenue	2,441	2,347
Chipset and other revenue	866	632
	3,307	**2,979**
Flash Memory Group	**469**	**544**
All other	**322**	**270**
Total net revenue	**$ 8,852**	**$ 8,940**
Operating income (loss)		
Digital Enterprise Group	$ 931	$ 1,175
Mobility Group	1,381	1,050
Flash Memory Group	(283)	(125)
All other	(354)	(382)

Total operating income	**$ 1,675**	**$ 1,718**

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We begin Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with an Overview section that discusses the important financial and other highlights affecting the company in order to provide context for the remainder of MD&A. We then discuss Intel s overall strategy and the strategy for our major operating segments to give the reader a summary of the goals of our business and the direction of our business and products. The Strategy section is followed by a discussion of the Critical Accounting Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our Results of Operations. Following the analysis of our results, we provide an analysis of changes in our balance sheets and cash flows, and discuss our financial condition in the section entitled Liquidity and Capital Resources followed by a discussion of our Equity Incentive Plans. We then conclude this MD&A with our Business Outlook section, discussing our outlook for the second quarter and for 2007.

The various sections of this MD&A contain a number of forward-looking statements. Words such as expects, goals, plans, believes, continues, may, and variations of such words and similar expressions identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in the Business Outlook section (see also Risk Factors in Part II, Item 1A of this Form 10-Q). Our actual results may differ materially, and these forward-looking statements do not reflect the potential impact of any divestitures, mergers, acquisitions, or other business combinations that had not been completed as of April 30, 2007.

Overview

We make, market, and sell advanced integrated digital technology products, primarily integrated circuits, for the computing and communications industries. Integrated circuits are semiconductor chips etched with interconnected electronic switches, and these chips perform various functions such as acting as the brains of a computer. Our goal is to be the preeminent provider of semiconductor chips and processor technology solutions to the worldwide digital economy. Intel s products include chips, boards, and other semiconductor products that are the building blocks integral to computers, servers, handheld devices, and networking and communications products. Our component-level products include microprocessors, chipsets, and flash memory. We offer products at various levels of integration, allowing our customers flexibility to create advanced computing and communications systems and products. Our operating segments include the Digital Enterprise Group, Mobility Group, Flash Memory Group, Digital Home Group, and the Digital Health Group.

Financial Highlights

Net revenue and gross margin for the first quarter of 2007 and 2006 were as follows:

(In Millions)	Q1 2007	Q1 2006
Net revenue	$ 8,852	$ 8,940
Gross margin	$ 4,432	$ 4,943

Our net revenue for Q1 2007 was approximately flat compared to Q1 2006. Lower microprocessor average selling prices were mostly offset by higher mobile microprocessor unit sales. Our overall gross margin dollars were $4.4 billion in Q1 2007, a decrease of 10% compared to $4.9 billion in Q1 2006. Our overall gross margin percentage decreased to 50.1% in Q1 2007, from 55.3% in Q1 2006. The decline in gross margin percentage was primarily attributable to gross margin declines in the Digital Enterprise Group and Flash Memory Group operating segments. The gross margin percentage for the Mobility Group was approximately flat in Q1 2007 compared to Q1 2006.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Within a highly competitive market, our desktop and mobile average selling prices remained approximately flat in the first quarter of 2007 as compared to the fourth quarter of 2006. However, server average selling prices were lower. While the percentage of server processors we sell with multiple cores is increasing, system builders can obtain similar performance from servers with only one or two multiple core processors compared to servers with multiple single core processors.

In line with the shift toward multi-core processors, shipments of our quad-core server processors, which were launched in the fourth quarter of 2006, nearly doubled in the first quarter of 2007. Although the mix between desktop and mobile remained relatively unchanged from the fourth quarter of 2006 to the first quarter of 2007, we have experienced, and expect to continue to experience, an overall shift from desktop processors to mobile processors. Due to the wide price differences among mobile, desktop, and server microprocessors, the mix and types of performance capabilities of microprocessors sold affect the average selling price of our products and have a substantial impact on our revenue.

Maintaining scale is key to our strategy of ramping new manufacturing and processor technologies quickly, delivering high performance, and lowering unit costs. Our current microprocessor offerings are built on our 65-nanometer process technology. We expect to release our next-generation 45-nanometer products in the second half of 2007. Start-up charges related to these products are expected to be more heavily concentrated in the first half of 2007. As a result, we expect our gross margins to improve in the second half of 2007.

Additionally, as part of our continued focus on technology leadership, we have announced that our next generation microarchitecture will be released in 2008. In January 2007, we announced that we will begin producing our next-generation Penryn family of processors using our industry-leading 45-nanometer Hi-k process technology with its hafnium-based high-K + metal gate transistor design, a new material which enables higher and more energy-efficient processor performance.

The semiconductor industry is characterized by rapid advances in technology and new product introductions. Our failure to respond quickly to technological developments and incorporate new features into our products could harm our ability to compete. In addition, our ability to enforce our patents, copyrights, software licenses, and other intellectual property is subject to general litigation risks, as well as uncertainty as to the enforceability of our intellectual property rights in various countries.

We continue to implement plans to increase our business efficiencies to reduce costs. Headcount has declined from 103,300 in the first quarter of 2006 to 91,800 in the first quarter of 2007. Spending in the first quarter of 2007 was $529 million lower than the first quarter of 2006. As a percentage of revenue, spending has declined nearly six percentage points from the first quarter of 2006. Results for the first quarter of 2007 included restructuring and asset impairment charges of $75 million.

From a financial condition perspective, we ended the first quarter of 2007 with $7.6 billion in cash and short-term investments, and returned $400 million to stockholders through stock repurchases and $650 million as dividends during the first quarter of 2007.

Other Highlights & Product Releases

We announced plans to invest $2.5 billion to build a 300-millimeter wafer fabrication facility in Dalian, China and to invest $300 million to build a semiconductor assembly and test facility in Ho Chi Minh City, Vietnam. Additionally, we announced that our Rio Rancho, New Mexico fabrication facility will be re-tooled to become the company s fourth 300-millimeter fabrication facility capable of producing 45-nanometer microprocessors.

Intel and Sun Microsystems, Inc. announced a broad strategic alliance that will result in Sun delivering a comprehensive family of enterprise and telecommunications servers and workstations based on Intel® Xeon® processors, with Intel supporting Solaris* as a mainstream operating system.

We launched two Quad-Core Intel® Xeon® processors LV (low-voltage) that are designed for Internet data centers and blade servers. These energy-efficient microprocessors run at speeds of up to 1.86 GHz, support a 1066-MHz bus, include 8 MB of L2 cache, and operate at 50 watts.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

We introduced the Intel® Core 2 Extreme quad-core processor QX6800, designed for gamers, digital design professionals, and PC enthusiasts. This processor runs at a speed of 2.93 GHz, supports a 1066-MHz bus, includes 8 MB of shared L2 cache, and supports 64-bit extensions and Intel® VT.

We launched the Intel® Z-U130 Value Solid State Drive (VSSD) storage solution for computing and embedded platforms. Intel VSSD, based on NAND flash memory technology, comes in densities of up to 4GB. Compared to traditional hard disk drives, Intel VSSD enables faster boot times and quicker suspend/resume times while using less power.

Strategy

Our strategy focuses on considering customer needs when developing the next generation of products and platforms. In turn, our products and platforms help enable the design and development of new form factors and usage models for businesses and consumers. We believe that end users, original equipment manufacturers (OEMs), third-party vendors, and service providers of computing and communications systems and devices want platform products. We define a platform as a collection of ingredients that are designed and configured to work together to provide an optimized end-user solution compared to when the ingredients are sold separately. We refer to the platforms within our product offerings as processor technologies. These processor technologies consist of various product ingredients based on standards and industry initiatives; hardware and software that may include technologies such as Hyper-Threading Technology (HT Technology), Intel® Virtualization Technology (Intel® VT), and Intel® Active Management Technology (Intel® AMT); and services. In developing our processor technologies, we may include ingredients sold by other companies. The success of our strategy to offer platform products is dependent on our ability to select and incorporate ingredients that customers value, and to market the platforms effectively. Our strategy is to have brands that address customer needs at various market price points.

We also believe that users of computing and communications systems and devices want improved overall performance and energy-efficient performance. Improved overall performance can include faster processing performance and other capabilities such as multithreading and multitasking. Performance can also be improved through enhanced connectivity, security, manageability, reliability, ease of use, and interoperability among devices. Improved energy-efficient performance involves balancing the addition of these and other types of improved performance factors with lower power consumption. Lower power consumption may reduce system heat output, thereby providing power savings, and reducing the total cost of ownership for the end user. It is our goal to incorporate these improvements into our various platforms to meet end-user demands. In line with these efforts, we are focusing on further development of multi-core microprocessors. Multi-core microprocessors contain two or more processor cores. Performance gains from a single core processor typically came from increasing the clock speed at which the core operates, resulting in the use of more power and an increase in heat output. By incorporating multiple cores into our processors, each core is able to run at a lower clock speed, dividing among them the power normally given to a single core, resulting in improved multitasking and energy efficiency. Our strategy for developing microprocessors with improved performance is to synchronize the introduction of a new microarchitecture with improvements in silicon process technology. We plan to introduce a new microarchitecture approximately every two years and ramp the next generation of silicon process technology in the intervening years. This coordinated schedule allows us to develop and introduce new products based on a common microarchitecture quickly, without waiting for the next generation of silicon process technology.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

We make equity investments in companies around the world to further our strategic objectives and to support our key business initiatives, including investments through our Intel Capital program. We generally focus on investing in companies and initiatives to stimulate growth in the digital economy, create new business opportunities for Intel, and expand global markets for our products. The investments may support, for example, Intel product initiatives, emerging trends in the technology industry, or worldwide Internet deployment. We invest in companies that develop software, hardware, or services supporting our technologies. Our current investment focus areas include helping to enable mobile wireless devices; advancing the digital home; providing access to premium digital content via the internet; enhancing the digital enterprise; advancing high-performance communications infrastructures; and developing the next generation of silicon production technologies. Our focus areas tend to develop and change over time due to rapid advancements in technology.

We plan to continue to cultivate new businesses and work with the computing, communications, and consumer electronics industries through standards bodies, trade associations, OEMs, original design manufacturers, and independent software and operating system vendors, to encourage the industry to offer products that take advantage of the latest market trends and usage models. These efforts include helping to expand the infrastructure for wireless connectivity, including wireless broadband. We also provide development tools and support to help software developers create software applications and operating systems that take advantage of our platform solutions. We frequently participate in industry initiatives designed to discuss and agree upon technical specifications and other aspects of technologies that could be adopted as standards by standards-setting organizations. In addition, we work collaboratively with other companies to protect digital content and the consumer.

Beginning in the first quarter of 2007, the Channel Platforms Group began directly supporting Intel s operating segments.

Digital Enterprise Group

The Digital Enterprise Group (DEG) designs and offers computing and communications products and platforms for businesses, service providers, and consumers. DEG products are incorporated into desktop computers, enterprise computer servers, workstations, and the infrastructure for the Internet. We develop platforms based on our processors, chipsets, board-level products, wired connectivity products, and products for network and server storage. DEG platforms for businesses are designed to increase employee productivity and reduce total cost of ownership by, for example, enabling remote manageability, diagnosis, and repair of PCs. The products and platforms that DEG offers are designed for various market segments, and include microprocessors that are optimized for use in the desktop and server computing market segments; products designed for the communications infrastructure, including network processors and communications boards; and products for the embedded market segment. End-user products for the embedded market segment include products such as industrial equipment, point-of-sale systems, panel PCs, automotive information/entertainment systems, and medical equipment. Consumer desktop platforms that are designed and marketed specifically for the digital home are offered by the Digital Home Group.

Our strategy for the desktop computing market segment is to offer platforms that provide increased manageability, security, and/or energy-efficient performance. Our primary platform for business desktop PCs is the Intel® vPro processor technology that offers built-in manageability and proactive security features as well as energy-efficient performance. Intel vPro processor technology currently includes the Intel® Core 2 Duo processor, the Intel® Q965 Express Chipset, and the Intel® 82566DM Gigabit Network Connection. For high-end desktop computing, we offer the Intel® Core 2 Quad processor, the Intel Core 2 Duo processor, the Intel® Pentium® D processor, and the Intel Pentium 4 processor with HT Technology. For lower price-point desktop computing, we offer the Intel® Celeron® D processor and the Intel Celeron processor. We also offer chipsets designed and optimized for use in desktop platforms.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Our strategy for the enterprise computing market segment is to provide products and platforms that provide performance, energy efficiency, ease of use, manageability, reliability, and security for entry-level to high-end servers and workstations. In support of this strategy, we are focusing on the design of platforms that meet the needs of customers who buy entry-level to high-end servers and workstations, such as information technology managers. Our Intel® Xeon® processor family of products supports a range of entry-level to high-end technical and commercial computing applications. We have enhanced these products with Intel® 64 architecture, our 64-bit extension technology supporting both 32-bit and 64-bit software applications. Compared to our Intel Xeon processor family, our Intel® Itanium® processor family, which is based on Intel s 64-bit architecture and includes the Intel® Itanium® 2 processor, generally supports an even higher level of reliability and computing performance for data processing, the handling of high transaction volumes, and other compute-intensive applications for enterprise-class servers, as well as supercomputing solutions. We also offer chipsets, network controllers, direct-attached storage I/O controllers, and RAID (redundant array of independent disks) products designed and optimized for use in both server and workstation platforms.

For the communications infrastructure, we deliver products that are basic building blocks for modular communications platforms. These products include advanced programmable network processors, based on Intel XScale® technology, used to manage and direct data moving across the Internet and corporate networks. We also offer embedded microprocessors that can be used for communications platform applications. In support of this strategy we are working with industry leaders to introduce standard form factors designed to take advantage of technology trends.

Mobility Group

The Mobility Group designs and offers products and platforms for notebook PCs and other mobile devices. The Mobility Group s products currently include microprocessors and related chipsets designed for the notebook market segment and wireless connectivity products.

Our strategy for notebook PCs is to offer products and platforms designed to improve performance, battery life, and wireless connectivity, as well as to allow for the design of reduced form factors. For high-end mobility computing, we offer the Intel Core 2 Duo, the Intel® Core Duo, the Intel® Core Solo, and the Intel® Pentium® M processors. For lower price-point mobile computing, we offer the Intel® Celeron® M and the Mobile Intel Celeron processors. We also offer Intel® Express Chipsets, with and without integrated graphics capability, which are designed for the notebook market segment. Additionally, we offer wireless connectivity solutions based on the Institute of Electrical and Electronics Engineers (IEEE) 802.11 industry standard as well the IEEE 802.16 industry standard, commonly known as WiMAX. The primary platforms offered by the Mobility Group are the Intel® Centrino® Duo processor technology and the Intel® Centrino® processor technology. The Intel Centrino processor technology consists of a mobile processor and a mobile chipset as well as a wireless network connection that together are designed to improve performance, battery life, form factor, and wireless connectivity. The Intel Centrino Duo processor technology expands on the capabilities of Intel Centrino processor technology by increasing multitasking performance, and includes power-saving features to further improve battery life, and contains a flexible network connection.

We also offer energy-efficient platforms for the ultra-mobile market segment that are designed primarily for mobile processing of digital content and Internet access. We are developing new products to support this evolving market segment including products for mobile internet devices.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Flash Memory Group

The strategy for the Flash Memory Group is to offer advanced NOR and NAND flash memory for products such as cellular phones, memory cards, digital audio players, and embedded form factors. In support of our strategy to provide advanced flash memory products we continue to focus on the development of innovative products designed to address the needs of customers for reliable, non-volatile, low cost, high density memory. We offer a broad range of memory densities, leading-edge packaging technology, and high-performance functionality. We offer NOR flash memory products such as Intel StrataFlash® wireless memory for advanced mobile phone designs. In addition to product offerings for cellular customers, we offer NOR flash memory products that meet the needs of other market segments, such as the embedded market segment. The embedded market segment includes set-top boxes, networking products, DVD players, DSL and cable modems, and other devices. Intel and Micron Technology, Inc. formed IM Flash Technologies, LLC (IMFT), a NAND flash memory manufacturing company, in January 2006. We offer products manufactured by IMFT that are currently being used in memory cards, digital audio players, cellular phones, and computing and embedded platforms. See Note 16: Ventures in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q for further discussion.

We offer a variety of stacked memory products, including products based on our NOR flash, as well as our NOR flash plus RAM or NAND flash, which in some instances we purchase from third-party vendors. Stacking of memory products refers to packaging several memory chips together which allows for space savings by providing lower profile package heights.

Digital Home Group

The strategy for the Digital Home Group is to design and offer products and platforms for use in consumer products such as PCs, digital TVs, networked media, and devices designed to access the Internet and share digital media and other content through a variety of linked digital devices within the home. We are focusing on the design of components for consumer-optimized digital home PCs and other living-room entertainment platforms and applications. We offer Intel® Viiv processor technology for use in the digital home. PCs based on Intel Viiv processor technology are designed to transform how consumers manage, share, and enjoy a broad and growing assortment of movies, programs, music, games, and photos. Intel Viiv processor technology also includes one of the following processors: Intel Core 2 Duo, Intel Core 2 Extreme, Intel Core 2 Quad, Intel Core Duo, Intel Pentium D, or Pentium® Processor Extreme Edition; as well as a chipset; a network connectivity device; and enabling software all optimized to work together in the digital home environment. In addition, we offer products for demodulation and tuner applications as well as processors and chipsets for embedded consumer electronics such as digital televisions, digital video recorders, and set-top boxes.

Digital Health Group

The strategy for the Digital Health Group is to design and deliver technology-enabled products and explore global business opportunities in healthcare information technology, healthcare research, diagnostics, and productivity, as well as personal healthcare. In support of this strategy, the Digital Health Group is focusing on the design of technology solutions and platforms for the digital hospital and consumer/home health products. Specifically, the Digital Health Group is focusing on the development of a new category of technology-enabled products and services for home healthcare, including products and services for the elderly and caregivers. The Digital Health Group is also working with standards organizations to advance standards and policies to enable innovation and interoperability across the healthcare ecosystem.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Critical Accounting Estimates

The methods, estimates, and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Our most critical accounting estimates include:

- the valuation of non-marketable equity investments, which impacts net gains (losses) on equity investments when we record impairments;
- the recognition and measurement of current and deferred income tax assets and liabilities, which impact our tax provision;
- the assessment of recoverability of long-lived assets, which primarily impacts gross margin or operating expenses when we record impairments of assets or accelerate their depreciation;
- the valuation of inventory, which impacts gross margin; and
- the valuation and recognition of share-based compensation, which impact gross margin, research and development expenses, and marketing, general and administrative expenses.

Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other policies that we consider key accounting policies, such as those for revenue recognition, including the deferral of revenue on sales to distributors; however, these policies typically do not require us to make estimates or judgments that are difficult or subjective.

Non-Marketable Equity Investments. We regularly invest in non-marketable equity investments of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies whose products or technologies may directly support an Intel product or initiative. At March 31, 2007, the carrying value of our portfolio of strategic investments in non-marketable equity investments, excluding equity derivatives, totaled $2.6 billion ($2.8 billion at December 30, 2006) and consists primarily of our investment in IMFT. In the first quarter of 2007, Clearwire Corporation became a public company and therefore is no longer considered a non-marketable equity investment. Our investment in Clearwire remains classified under other long-term assets. See Note 8: Equity Investments in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q for further discussion.

Non-marketable equity investments are inherently risky, and a number of these companies are likely to fail. Their success is dependent on product development, market acceptance, operational efficiency, and other factors. In addition, depending on their future prospects and market conditions, they may not be able to raise additional funds when needed or they may receive lower valuations, with less favorable investment terms than in previous financings, and our investments would likely become impaired.

We review our investments quarterly for indicators of impairment; however, for non-marketable equity investments, the impairment analysis requires significant judgment to identify events or circumstances that would significantly harm the fair value of the investment. The indicators that we use to identify those events or circumstances include:

- the investee s revenue and earnings trends relative to predefined milestones and overall business prospects;
- the technological feasibility of the investee s products and technologies;
- the general market conditions in the investee s industry or geographic area, including regulatory or economic changes;
- factors related to the investee s ability to remain in business, such as the investee s liquidity, debt ratios, and the rate at which the investee is using its cash; and
- the investee s receipt of additional funding at a lower valuation.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other than temporarily impaired, in which case we write-down the investment to its estimated fair value. When an investee is not considered viable from a financial or technological point of view, we write off the investment, since we consider the estimated fair value to be nominal. If an investee obtains additional funding at a valuation lower than our carrying amount or requires a new round of equity funding to stay in operation and the new funding does not appear imminent, we presume that the investment is other than temporarily impaired, unless specific facts and circumstances indicate otherwise. Impairments of investments in our portfolio of non-marketable equity investments were $36 million in the first quarter of 2007 ($23 million in the first quarter of 2006). Over the past twelve quarters, including the first quarter of 2007, impairments of investments in our portfolio of non-marketable equity investments have ranged between $10 million and $41 million per quarter.

Income Taxes. We adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), in the first quarter of 2007. See Note 14: Taxes in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q for further discussion.

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits benefits, and deductions, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties relating to these uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover a substantial majority of the deferred tax assets recorded on our consolidated condensed balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not probable.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. As a result of the implementation of FIN 48, we recognize liabilities for uncertain tax positions based on the two-step process prescribed within the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

Long-Lived Assets. We assess the impairment of long-lived assets when events or changes in circumstances indicate that the carrying value of the assets or the asset grouping may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset grouping to our estimate of the related total future undiscounted net cash flows. If an asset grouping s carrying value is not recoverable through the related undiscounted cash flows, the asset grouping is considered to be impaired. The impairment is measured by the difference between the asset grouping s carrying amount and its fair value, based on the best information available, including market prices or discounted cash flow analysis.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific semiconductor manufacturing tools and building improvements. When we determine that the useful lives of assets are shorter than we had originally estimated, and there are sufficient cash flows to support the carrying value of the assets, we accelerate the rate of depreciation charges in order to depreciate the assets over their new shorter useful lives. Impairments and accelerated depreciation of long-lived assets were $56 million during the first quarter of 2007 (less than $15 million in the first quarter of 2006). Over the past twelve quarters, impairments and accelerated depreciation of long-lived assets have ranged between $1 million and $320 million per quarter. This range includes the asset impairment charges in the fourth quarter of 2006 and the first quarter of 2007 relating to our communications and application processor business.

Inventory. The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The demand forecast is a direct input in the development of our short-term manufacturing plans, to enable consistency between inventory valuation and build decisions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of the customer base, the stage of the product life cycle of our products, consumer confidence, and customer acceptance of our products as well as an assessment of the selling price in relation to the product cost. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, or if we fail to forecast accurately the demand, we could be required to write down additional inventory, which would have a negative impact on our gross margin.

Share-Based Compensation. Total share-based compensation during the first quarter of 2007 was $284 million ($374 million during the first quarter of 2006). Determining the appropriate fair-value model and calculating the fair value of employee stock options and rights to purchase shares under stock purchase plans at the date of grant requires judgment. We use the Black-Scholes option pricing model to estimate the fair value of these share-based awards consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). Option pricing models, including the Black-Scholes model, also require the use of input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. The assumptions for expected volatility and expected life are the two assumptions that significantly affect the grant date fair value. The expected dividend rate and expected risk-free rate of return are not significant to the calculation of fair value.

We use implied volatility based on freely traded options in the open market, as we believe implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. In determining the appropriateness of implied volatility, we considered the following:

- the volume of market activity of freely traded options, and determined that there was sufficient market activity;
- the ability to reasonably match the input variables of freely traded options to those of options granted by the company, such as the date of grant and the exercise price, and determined that the input assumptions were comparable; and
- the length of term of freely traded options used to derive implied volatility, which is generally one to two years, and determined that the length of term was sufficient.

We use the simplified calculation of expected life described in the U.S. Securities and Exchange Commission s Staff Accounting Bulletin 107 (SAB 107), due to changes in the vesting terms and contractual life of current option grants compared to our historical grants. If we determined that another method used to estimate expected volatility or expected life was more reasonable than our current methods, or if another method for calculating these input assumptions was prescribed by authoritative guidance, the fair value calculated for share-based awards could change significantly. In addition, the simplified calculation of expected life is only allowed under SAB 107 through the end of

fiscal 2007, after which time we will determine an alternate method for estimating the useful life of options granted.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Higher volatility and longer expected lives result in an increase to share-based compensation determined at the date of grant. The effect that changes in the volatility and the expected life would have on the weighted average fair value of grants and the increase in total fair value during the first quarter of 2007 is as follows:

	Q1 2007	
	Weighted Average Fair Value Per Share	Increase in Total Fair Value[1]
		(in millions)
As reported	$ 5.78	
Hypothetical:		
Increase expected volatility by 5 percentage points[2]	$ 6.58	$ 1
Increase expected life by 1 year	$ 6.16	$ 1

[1] *Amounts represent the hypothetical increase in the total fair value determined at the date of grant, which would be amortized over the vesting period, net of estimated forfeitures.*

[2] *For example, an increase from 26% as reported volatility for Q1 2007 to a hypothetical 31% volatility.*

In addition, SFAS No. 123(R) requires us to develop an estimate of the number of share-based awards that will be forfeited due to employee turnover. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation, as we recognize the cumulative effect of adjusting the rate for all expense amortization after January 1, 2006 in the period the forfeiture estimate is changed. We estimate and adjust forfeiture rates based on a quarterly review of recent forfeiture activity and expected future employee turnover. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, we make an adjustment that will result in a decrease to the expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, we make an adjustment that will result in an increase to the expense recognized in the

financial statements. These adjustments affect our gross margin; research and development expenses; and marketing, general and administrative expenses. The effect of forfeiture adjustments in the first quarter of 2007 and 2006 was insignificant. We record cumulative adjustments to the extent that the related expense is recognized in the financial statements, beginning with implementation of SFAS No. 123(R) in the first quarter of 2006. Therefore, the potential impact from cumulative forfeiture adjustments will increase in future periods. The expense that we recognize in future periods could also differ significantly from the current period and from our forecasts due to adjustments in the assumed forfeiture rates.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations - First Quarter of 2007 Compared to First Quarter of 2006

The following table sets forth certain consolidated statements of income data as a percentage of net revenue for the periods indicated:

	Q1 2007		Q1 2006	
(Dollars in Millions, Except Per Share Amounts)	**Dollars**	**% of Net Revenue**	**Dollars**	**% of Net Revenue**
Net revenue	**$ 8,852**	**100.0%**	**$ 8,940**	**100.0%**
Cost of sales	4,420	49.9%	3,997	44.7%
Gross margin	**4,432**	**50.1%**	**4,943**	**55.3%**
Research and development	1,400	15.8%	1,562	17.5%
Marketing, general and administrative	1,277	14.4%	1,644	18.4%
Restructuring and asset impairment charges	75	0.9%		%
Amortization of acquisition-related intangibles and costs	5	0.1%	19	0.2%
Operating income	**1,675**	**18.9%**	**1,718**	**19.2%**
Gains on equity investments, net	29	0.4%	2	
Interest and other, net	169	1.9%	154	1.8%
Income before taxes	**1,873**	**21.2%**	**1,874**	**21.0%**
Provision for taxes	237	2.7%	517	5.8%
Net income	**$**			