

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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INTEL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

Three Years Ended December 27, 2008
(In Millions, Except Per Share Amounts)

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|------------------|------------------|------------------|
| Net revenue | \$ 37,586 | \$ 38,334 | \$ 35,382 |
| Cost of sales | 16,742 | 18,430 | 17,164 |
| Gross margin | 20,844 | 19,904 | 18,218 |
| Research and development | 5,722 | 5,755 | 5,873 |
| Marketing, general and administrative | 5,458 | 5,417 | 6,138 |
| Restructuring and asset impairment charges | 710 | 516 | 555 |
| Operating expenses | 11,890 | 11,688 | 12,566 |
| Operating income | 8,954 | 8,216 | 5,652 |
| Gains (losses) on equity method investments, net | (1,380) | 3 | 2 |
| Gains (losses) on other equity investments, net | (376) | 154 | 212 |
| Interest and other, net | 488 | 793 | 1,202 |
| Income before taxes | 7,686 | 9,166 | 7,068 |
| Provision for taxes | 2,394 | 2,190 | 2,024 |
| Net income | \$ 5,292 | \$ 6,976 | \$ 5,044 |
| Basic earnings per common share | \$ 0.93 | \$ 1.20 | \$ 0.87 |
| Diluted earnings per common share | \$ 0.92 | \$ 1.18 | \$ 0.86 |
| Weighted average shares outstanding: | | | |
| Basic | 5,663 | 5,816 | 5,797 |
| Diluted | 5,748 | 5,936 | 5,880 |

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED BALANCE SHEETS

December 27, 2008 and December 29, 2007
(In Millions, Except Par Value)

| | <u>2008</u> | <u>2007</u> |
|--|-------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,350 | \$ 7,307 |
| Short-term investments | 5,331 | 5,490 |
| Trading assets | 3,162 | 2,566 |
| Accounts receivable, net of allowance for doubtful accounts of \$17 (\$27 in 2007) | 1,712 | 2,576 |
| Inventories | 3,744 | 3,370 |
| Deferred tax assets | 1,390 | 1,186 |
| Other current assets | 1,182 | 1,390 |
| Total current assets | <u>19,871</u> | <u>23,885</u> |
| Property, plant and equipment, net | 17,544 | 16,918 |
| Marketable equity securities | 352 | 987 |
| Other long-term investments | 2,924 | 4,398 |
| Goodwill | 3,932 | 3,916 |
| Other long-term assets | 6,092 | 5,547 |
| Total assets | <u>\$ 50,715</u> | <u>\$ 55,651</u> |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Short-term debt | \$ 102 | \$ 142 |
| Accounts payable | 2,390 | 2,361 |
| Accrued compensation and benefits | 2,015 | 2,417 |
| Accrued advertising | 807 | 749 |
| Deferred income on shipments to distributors | 463 | 625 |
| Other accrued liabilities | 2,041 | 2,277 |
| Total current liabilities | <u>7,818</u> | <u>8,571</u> |
| Long-term income taxes payable | 736 | 785 |
| Deferred tax liabilities | 46 | 411 |
| Long-term debt | 1,886 | 1,980 |
| Other long-term liabilities | 1,141 | 1,142 |
| Commitments and contingencies (Notes 18 and 24) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 50 shares authorized; none issued | — | — |
| Common stock, \$0.001 par value, 10,000 shares authorized; 5,562 issued and outstanding (5,818 in 2007) and capital in excess of par value | 12,944 | 11,653 |
| Accumulated other comprehensive income (loss) | (393) | 261 |
| Retained earnings | 26,537 | 30,848 |
| Total stockholders' equity | <u>39,088</u> | <u>42,762</u> |
| Total liabilities and stockholders' equity | <u>\$ 50,715</u> | <u>\$ 55,651</u> |

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Years Ended December 27, 2008
(In Millions)

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|------------------------|------------------------|------------------------|
| Cash and cash equivalents, beginning of year | \$ 7,307 | \$ 6,598 | \$ 7,324 |
| Cash flows provided by (used for) operating activities: | | | |
| Net income | 5,292 | 6,976 | 5,044 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 4,360 | 4,546 | 4,654 |
| Share-based compensation | 851 | 952 | 1,375 |
| Restructuring, asset impairment, and net loss on retirement of assets | 795 | 564 | 635 |
| Excess tax benefit from share-based payment arrangements | (30) | (118) | (123) |
| Amortization of intangibles | 256 | 252 | 258 |
| (Gains) losses on equity method investments, net | 1,380 | (3) | (2) |
| (Gains) losses on other equity investments, net | 376 | (154) | (212) |
| (Gains) losses on divestitures | (59) | (21) | (612) |
| Deferred taxes | (790) | (443) | (325) |
| Changes in assets and liabilities: | | | |
| Trading assets | 193 | (1,429) | 324 |
| Accounts receivable | 260 | 316 | 1,229 |
| Inventories | (395) | 700 | (1,116) |
| Accounts payable | 29 | 102 | 7 |
| Accrued compensation and benefits | (569) | 354 | (435) |
| Income taxes payable and receivable | (834) | (248) | (60) |
| Other assets and liabilities | (189) | 279 | (9) |
| Total adjustments | <u>5,634</u> | <u>5,649</u> | <u>5,588</u> |
| Net cash provided by operating activities | <u>10,926</u> | <u>12,625</u> | <u>10,632</u> |
| Cash flows provided by (used for) investing activities: | | | |
| Additions to property, plant and equipment | (5,197) | (5,000) | (5,860) |
| Acquisitions, net of cash acquired | (16) | (76) | — |
| Purchases of available-for-sale investments | (6,479) | (11,728) | (5,272) |
| Maturities and sales of available-for-sale investments | 7,993 | 8,011 | 7,147 |
| Purchases of trading assets | (2,676) | — | — |
| Maturities and sales of trading assets | 1,766 | — | — |
| Investments in non-marketable equity investments | (1,691) | (1,459) | (1,722) |
| Return of equity method investment | 316 | — | — |
| Proceeds from divestitures | 85 | 32 | 752 |
| Other investing activities | 34 | 294 | (33) |
| Net cash used for investing activities | <u>(5,865)</u> | <u>(9,926)</u> | <u>(4,988)</u> |
| Cash flows provided by (used for) financing activities: | | | |
| Increase (decrease) in short-term debt, net | (40) | (39) | (114) |
| Proceeds from government grants | 182 | 160 | 69 |
| Excess tax benefit from share-based payment arrangements | 30 | 118 | 123 |
| Additions to long-term debt | — | 125 | — |
| Repayment of notes payable | — | — | (581) |
| Proceeds from sales of shares through employee equity incentive plans | 1,105 | 3,052 | 1,046 |
| Repurchase and retirement of common stock | (7,195) | (2,788) | (4,593) |
| Payment of dividends to stockholders | (3,100) | (2,618) | (2,320) |
| Net cash used for financing activities | <u>(9,018)</u> | <u>(1,990)</u> | <u>(6,370)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(3,957)</u> | <u>709</u> | <u>(726)</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,350</u> | <u>\$ 7,307</u> | <u>\$ 6,598</u> |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest, net of amounts capitalized of \$86 in 2008 (\$57 in 2007 and \$60 in 2006) | \$ 6 | \$ 15 | \$ 25 |
| Income taxes, net of refunds | \$ 4,007 | \$ 2,762 | \$ 2,432 |

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| Three Years Ended December 27, 2008 (In Millions, Except Per Share Amounts) | Common Stock and Capital in Excess of Par Value | | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total |
|--|---|------------------|--|----------------------|------------------|
| | Number of Shares | Amount | | | |
| Balance as of December 31, 2005 | 5,919 | \$ 6,245 | \$ 127 | \$ 29,810 | \$ 36,182 |
| Components of comprehensive income, net of tax: | | | | | |
| Net income | — | — | — | 5,044 | 5,044 |
| Other comprehensive income | — | — | 26 | — | 26 |
| Total comprehensive income | | | | | 5,070 |
| Adjustment for initially applying SFAS No. 158, net of tax ¹ | — | — | (210) | — | (210) |
| Proceeds from sales of shares through employee equity incentive plans, net excess tax benefit, and other | 73 | 1,248 | — | — | 1,248 |
| Share-based compensation | — | 1,375 | — | — | 1,375 |
| Repurchase and retirement of common stock | (226) | (1,043) | — | (3,550) | (4,593) |
| Cash dividends declared (\$0.40 per share) | — | — | — | (2,320) | (2,320) |
| Balance as of December 30, 2006 | 5,766 | 7,825 | (57) | 28,984 | 36,752 |
| Cumulative-effect adjustments, net of tax ¹ : | | | | | |
| Adoption of EITF 06-02 | — | — | — | (181) | (181) |
| Adoption of FIN 48 | — | — | — | 181 | 181 |
| Components of comprehensive income, net of tax: | | | | | |
| Net income | — | — | — | 6,976 | 6,976 |
| Other comprehensive income | — | — | 318 | — | 318 |
| Total comprehensive income | | | | | 7,294 |
| Proceeds from sales of shares through employee equity incentive plans, net excess tax benefit, and other | 165 | 3,170 | — | — | 3,170 |
| Share-based compensation | — | 952 | — | — | 952 |
| Repurchase and retirement of common stock | (113) | (294) | — | (2,494) | (2,788) |
| Cash dividends declared (\$0.45 per share) | — | — | — | (2,618) | (2,618) |
| Balance as of December 29, 2007 | 5,818 | 11,653 | 261 | 30,848 | 42,762 |
| Components of comprehensive income, net of tax: | | | | | |
| Net income | — | — | — | 5,292 | 5,292 |
| Other comprehensive income | — | — | (654) | — | (654) |
| Total comprehensive income | | | | | 4,638 |
| Proceeds from sales of shares through employee equity incentive plans, net excess tax benefit, and other | 72 | 1,132 | — | — | 1,132 |
| Share-based compensation | — | 851 | — | — | 851 |
| Repurchase and retirement of common stock | (328) | (692) | — | (6,503) | (7,195) |
| Cash dividends declared (\$0.5475 per share) | — | — | — | (3,100) | (3,100) |
| Balance as of December 27, 2008 | 5,562 | \$ 12,944 | \$ (393) | \$ 26,537 | \$ 39,088 |

¹ For further discussion of the adjustments recorded at the beginning of fiscal years 2006 and 2007, see "Accounting Changes" in "Note 2: Accounting Policies."

See accompanying notes.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

We have a 52- or 53-week fiscal year that ends on the last Saturday in December. Fiscal year 2008, a 52-week year, ended on December 27, 2008. Fiscal year 2007, a 52-week year, ended on December 29, 2007. Fiscal year 2006, a 52-week year, ended on December 30, 2006. The next 53-week year will end on December 31, 2011.

Our consolidated financial statements include the accounts of Intel Corporation and our wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated. We use the equity method to account for equity investments in instances in which we own common stock or similar interests (as described by the Emerging Issues Task Force (EITF) Issue No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock"), and have the ability to exercise significant influence, but not control, over the investee.

The U.S. dollar is the functional currency for Intel and our subsidiaries; therefore, we do not have a translation adjustment recorded through accumulated other comprehensive income (loss). Monetary accounts denominated in non-U.S. currencies, such as cash or payables to vendors, have been remeasured to the U.S. dollar.

In accordance with the adoption of Statement of Financial Accounting Standards (SFAS) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" (SFAS No. 159), we have classified cash flows from certain trading assets as cash flows from investing activities beginning in 2008. For further discussion, see "Accounting Changes" in "Note 2: Accounting Policies."

As of December 27, 2008, our other accrued liabilities included \$447 million in customer credit balances. Customer credit balances were not significant as of December 29, 2007.

Note 2: Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. 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 valuation of investments in debt instruments and the determination of other-than-temporary impairments;
- the assessment of recoverability of long-lived assets;
- the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions); and
- the valuation of inventory.

The actual results that we experience may differ materially from our estimates.

Cash and Cash Equivalents

We consider all liquid available-for-sale debt instruments with original maturities from the date of purchase of approximately three months or less as cash and cash equivalents.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Trading Assets

Investments that we designate as trading assets are reported at fair value, with gains or losses resulting from changes in fair value recognized in earnings. Our trading asset investments include:

- *Marketable debt instruments* when the interest rate or foreign exchange rate risk is hedged at inception by a related derivative instrument. We record the gains or losses of these investments arising from changes in fair value due to interest rate and currency market fluctuations and credit market volatility, offset by losses or gains on the related derivative instruments, in interest and other, net. We also designate certain floating-rate securitized financial instruments, primarily asset-backed securities purchased after December 30, 2006, as trading assets.
- *Equity securities offsetting deferred compensation* when the investments seek to offset changes in liabilities related to equity and other market risks of certain deferred compensation arrangements. We offset the gains or losses from changes in fair value of these equity securities against losses or gains on the related liabilities and include them in interest and other, net.
- *Marketable equity securities* when we deem the investments not to be strategic in nature at the time of original classification, and generally have the ability and intent to mitigate equity market risk through the sale or the use of derivative instruments. For these marketable equity securities, we include gains or losses from changes in fair value, primarily offset by losses or gains on related derivative instruments, in gains (losses) on other equity investments, net.

Debt Instrument Investments

We classify available-for-sale debt instruments with original maturities at the date of purchase greater than approximately three months and remaining maturities less than one year as short-term investments. We classify available-for-sale debt instruments with remaining maturities greater than one year as other long-term investments. We account for cost basis loan participation notes at amortized cost and classify them as short-term investments and other long-term investments based on stated maturities.

Available-for-Sale Investments

Investments that we designate as available-for-sale are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income (loss). We determine the cost of the investment sold based on the specific identification method. Our available-for-sale investments include:

- *Marketable debt instruments* when the interest rate and foreign currency risks are not hedged at inception of the investment or when our designation for trading assets is not met. We hold these debt instruments to generate a return commensurate with three-month LIBOR. We record the interest income and realized gains and losses on the sale of these instruments in interest and other, net.
- *Marketable equity securities* when the investments are considered strategic in nature at the time of original classification or there are barriers to mitigating equity market risk through the sale or use of derivative instruments at the time of original classification. We acquire these equity investments for the promotion of business and strategic objectives. To the extent that these investments continue to have strategic value, we typically do not attempt to reduce or eliminate the inherent equity market risks through hedging activities. We record the realized gains or losses on the sale or exchange of marketable equity securities in gains (losses) on other equity investments, net.

Non-Marketable and Other Equity Investments

We account for non-marketable and other equity investments under either the cost or equity method and include them in other long-term assets. Our non-marketable and other equity investments include:

- *Equity method investments* when we have the ability to exercise significant influence, but not control, over the investee. We record equity method adjustments in gains (losses) on equity method investments, net, and may do so with up to a one-quarter lag. Equity method adjustments include: our proportionate share of investee income or loss, gains or losses resulting from investee capital transactions, adjustments to recognize certain differences between our carrying value and our equity in net assets of the investee at the date of investment, impairments, and other adjustments required by the equity method. Equity method investments include marketable and non-marketable investments.
- *Non-marketable cost method investments* when the equity method does not apply. We record the realized gains or losses on the sale of non-marketable cost method investments in gains (losses) on other equity investments, net.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other-Than-Temporary Impairment

All of our available-for-sale investments and non-marketable and other equity investments are subject to a periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary, for the following investments:

- *Marketable equity securities* when the resulting fair value is significantly below cost basis and/or the significant decline has lasted for an extended period of time. The evaluation that we use to determine whether a marketable equity security is other than temporarily impaired is based on the specific facts and circumstances present at the time of assessment, which include the consideration of general market conditions, the duration and extent to which the fair value is below cost, and our intent and ability to hold the investment for a sufficient period of time to allow for recovery in value in the foreseeable future. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and changes in the investee's credit rating.
- *Non-marketable equity investments* when events or circumstances are identified that would significantly harm the fair value of the investment and the fair value is significantly below cost basis and/or the significant decline has lasted for an extended period of time. The indicators that we use to identify those events and circumstances include:
 - the investee's revenue and earning 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 adverse 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. If an investee obtains additional funding at a valuation lower than our carrying amount, or a new round of equity funding is required for the investee to remain in business and the new round of equity does not appear imminent, it is presumed that the investment is other than temporarily impaired, unless specific facts and circumstances indicate otherwise.
- *Marketable debt instruments* when the fair value is significantly below amortized cost and/or the significant decline has lasted for an extended period of time and we do not have the intent and ability to hold the investment for a sufficient period of time to allow for recovery in the foreseeable future. The evaluation that we use to determine whether a marketable debt instrument is other than temporarily impaired is based on the specific facts and circumstances present at the time of assessment, which include the consideration of the financial condition and liquidity of the issuer, the issuer's credit rating, specific events that may cause us to believe that the debt instrument will not mature and be paid in full, and the duration and extent to which the fair value is below cost.

Investments that we identify 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 fair value. We record impairment charges for:

- marketable equity securities and non-marketable cost method investments in gains (losses) on other equity investments, net;
- non-marketable and marketable equity method investments in gains (losses) on equity method investments, net; and
- marketable debt instruments in interest and other, net.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments

Our primary objective for holding derivative financial instruments is to manage currency exchange rate risk and interest rate risk, and to a lesser extent, equity market risk and commodity price risk. Our derivative financial instruments are recorded at fair value and are included in other current assets, other long-term assets, other accrued liabilities, or other long-term liabilities. Derivative instruments recorded as assets totaled \$173 million as of December 27, 2008 (\$118 million as of December 29, 2007). Derivative instruments recorded as liabilities totaled \$299 million as of December 27, 2008 (\$130 million as of December 29, 2007). For further discussion of our derivative instruments, see “Note 8: Derivative Financial Instruments.”

Our accounting policies for derivative financial instruments are based on whether they meet the criteria for designation as cash flow or fair value hedges. A designated hedge of the exposure to variability in the future cash flows of an asset or a liability, or of a forecasted transaction, is referred to as a cash flow hedge. A designated hedge of the exposure to changes in fair value of an asset or a liability, or of an unrecognized firm commitment, is referred to as a fair value hedge. The criteria for designating a derivative as a hedge include the assessment of the instrument’s effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the probability that the underlying transaction will occur. For derivatives with cash flow hedge accounting designation, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) and reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction. For derivatives with fair value hedge accounting designation, we recognize gains or losses from the change in fair value of these derivatives, as well as the offsetting change in the fair value of the underlying hedged item, in earnings. Derivatives that we designate as hedges are classified in the consolidated statements of cash flows in the same section as the underlying item, primarily within cash flows from operating activities.

We recognize gains and losses from changes in fair values of derivatives that are not designated as hedges for accounting purposes within the income statement line item most closely associated with the economic underlying, primarily in interest and other, net, except for equity-related gains or losses, which we primarily record in gains (losses) on other equity investments, net. Derivatives not designated as hedges are classified in cash flows from operating activities.

As part of our strategic investment program, we also acquire equity derivative instruments, such as warrants and equity conversion rights associated with debt instruments, which we do not designate as hedging instruments. We recognize the gains or losses from changes in fair values of these equity derivative instruments in gains (losses) on other equity investments, net.

Measurement of Effectiveness

- *Effectiveness for forwards* is generally measured by comparing the cumulative change in the fair value of the hedge contract with the cumulative change in the present value of the forecasted cash flows of the hedged item. For currency forward contracts used in cash flow hedging strategies related to capital purchases, forward points are excluded, and effectiveness is measured using spot rates to value both the hedge contract and the hedged item. For currency forward contracts used in cash flow hedging strategies related to operating expenditures, forward points are included and effectiveness is measured using forward rates to value both the hedge contract and the hedged item.
- *Effectiveness for currency options and equity options with hedge accounting designation* is generally measured by comparing the cumulative change in the fair value of the hedge contract with the cumulative change in the fair value of an option instrument representing the hedged risks in the hedged item for cash flow hedges. For fair value hedges, time value is excluded and effectiveness is measured based on spot rates to value both the hedge contract and the hedged item.
- *Effectiveness for interest rate swaps* is generally measured by comparing the change in fair value of the hedged item with the change in fair value of the interest rate swap.

If a cash flow hedge were discontinued because it was no longer probable that the original hedged transaction would occur as anticipated, the unrealized gain or loss on the related derivative would be reclassified into earnings. Subsequent gains or losses on the related derivative instrument would be recognized in income in each period until the instrument matures, is terminated, is re-designated as a qualified hedge, or is sold. Any ineffective portion of both cash flow and fair value hedges, as well as amounts excluded from the assessment of effectiveness, is recognized in earnings in interest and other, net.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Securities Lending

We may enter into securities lending agreements with financial institutions, generally to facilitate hedging and certain investment transactions. Selected securities may be loaned, secured by collateral in the form of cash or securities. The loaned securities continue to be carried as investment assets on our consolidated balance sheets. Cash collateral is recorded as an asset with a corresponding liability. For lending agreements collateralized by securities, we do not record the collateral as an asset or a liability, unless the collateral is replugged.

Inventories

We compute inventory cost on a currently adjusted standard basis (which approximates actual cost on an average or first-in, first-out basis). 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. It is reasonably possible that our estimate of future demand for our products could change in the near term and result in additional inventory write-offs, which would negatively impact our gross margin. Inventory in excess of saleable amounts is not valued, and the remaining inventory is valued at the lower of cost or market. Inventories at fiscal year-ends were as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> |
|------------------------------------|------------------------|------------------------|
| Raw materials | \$ 608 | \$ 507 |
| Work in process | 1,577 | 1,460 |
| Finished goods | 1,559 | 1,403 |
| Total inventories | <u>\$ 3,744</u> | <u>\$ 3,370</u> |

Property, Plant and Equipment

Property, plant and equipment, net at fiscal year-ends was as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> |
|---|-------------------------|-------------------------|
| Land and buildings | \$ 16,546 | \$ 15,267 |
| Machinery and equipment | 28,812 | 27,754 |
| Construction in progress | 2,730 | 3,031 |
| | 48,088 | 46,052 |
| Less: accumulated depreciation | (30,544) | (29,134) |
| Total property, plant and equipment, net | <u>\$ 17,544</u> | <u>\$ 16,918</u> |

We state property, plant and equipment at cost, less accumulated depreciation. We compute depreciation for financial reporting purposes using the straight-line method over the following estimated useful lives: machinery and equipment, 2 to 4 years; buildings, 4 to 40 years. We regularly perform reviews if facts and circumstances indicate that the carrying amount of assets may not be recoverable or that the useful life is shorter than we had originally estimated. We assess the recoverability of our assets held for use by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. If we determine that the useful lives are shorter than we had originally estimated, we depreciate the net book value of the assets over the newly determined remaining useful lives. For a discussion of restructuring-related asset impairment charges, see "Note 15: Restructuring and Asset Impairment Charges."

We identify property, plant and equipment as held for sale when it meets the criteria of SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." We reclassify held for sale assets to other current assets and cease recording depreciation.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We capitalize interest on borrowings related to eligible capital expenditures. We add capitalized interest to the cost of qualified assets and amortize it over the estimated useful lives of the assets. We record capital-related government grants earned as a reduction to property, plant and equipment.

Goodwill

We record goodwill when the purchase price of an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Each year during the fourth quarter, we perform an impairment review for each reporting unit using a fair value approach. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. In determining the carrying value of the reporting unit, we make an allocation of our manufacturing and assembly and test assets because of the interchangeable nature of our manufacturing and assembly and test capacity. We base this allocation on each reporting unit's relative percentage utilization of the manufacturing and assembly and test assets. In the event that an individual business within a reporting unit is divested, we allocate goodwill to that business based on its fair value relative to its reporting unit. For further discussion of goodwill, see "Note 13: Goodwill."

Identified Intangible Assets

Intellectual property assets primarily represent rights acquired under technology licenses and are generally amortized on a straight-line basis over the periods of benefit, ranging from 3 to 17 years. We amortize acquisition-related developed technology on a straight-line basis over approximately 4 years. We amortize other intangible assets over 4 years. We classify all identified intangible assets within other long-term assets. In the quarter following the period in which identified intangible assets become fully amortized, the fully amortized balances are removed from the gross asset and accumulated amortization amounts. For further discussion of identified intangible assets, see "Note 14: Identified Intangible Assets."

We perform a quarterly review of identified intangible assets to determine if facts and circumstances indicate that the useful life is shorter than we had originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, we assess the recoverability of identified intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets.

Product Warranty

We generally sell products with a limited warranty on product quality and a limited indemnification for customers against intellectual property infringement claims related to our products. We accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated, and accrue for estimated incurred but unidentified issues based on historical activity. The accrual and the related expense for known issues were not significant during the periods presented. Due to product testing and the short time typically between product shipment and the detection and correction of product failures, and considering the historical rate of payments on indemnification claims, the accrual and related expense for estimated incurred but unidentified issues were not significant during the periods presented.

Revenue Recognition

We recognize net revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title, and acceptance, if applicable, as well as fixed pricing and probable collectibility. We record pricing allowances, including discounts based on contractual arrangements with customers, when we recognize revenue as a reduction to both accounts receivable and net revenue. Because of frequent sales price reductions and rapid technology obsolescence in the industry, we defer the revenue and related costs of sales from sales made to distributors under agreements allowing price protection and/or right of return until the distributors sell the merchandise. The right of return granted generally consists of a stock rotation program in which distributors are able to exchange certain products based on the number of qualified purchases made by the distributor. Under the price protection program, we give distributors credits for the difference between the original price paid and the current price that we offer. We record the net deferred income from sales to distributors on our balance sheet as deferred income on shipments to distributors. We include shipping charges billed to customers in net revenue, and include the related shipping costs in cost of sales.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Advertising

Cooperative advertising programs reimburse customers for marketing activities for certain of our products, subject to defined criteria. We accrue cooperative advertising obligations and record the costs at the same time that the related revenue is recognized. We record cooperative advertising costs as marketing, general and administrative expenses to the extent that an advertising benefit separate from the revenue transaction can be identified and the fair value of that advertising benefit received is determinable. We record any excess in cash paid over the fair value of the advertising benefit received as a reduction in revenue. Advertising costs recorded within marketing, general and administrative expenses were \$1.86 billion in 2008 (\$1.90 billion in 2007 and \$2.32 billion in 2006).

Employee Equity Incentive Plans

We have employee equity incentive plans, which are described more fully in “Note 19: Employee Equity Incentive Plans.” Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), “Share-Based Payment” (SFAS No. 123(R)). SFAS No. 123(R) requires employee equity awards to be accounted for under the fair value method. Accordingly, we measure share-based compensation at the grant date based on the fair value of the award.

Under the modified prospective method of adoption for SFAS No. 123(R), the compensation cost that we recognized beginning in 2006 includes compensation cost for all equity incentive awards granted prior to but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and compensation cost for all equity incentive awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). We use the straight-line attribution method to recognize share-based compensation over the service period of the award. Upon exercise, cancellation, forfeiture, or expiration of stock options, or upon vesting or forfeiture of restricted stock units, we eliminate deferred tax assets for options and restricted stock units with multiple vesting dates for each vesting period on a first-in, first-out basis as if each vesting period were a separate award.

Accounting Changes

Fiscal Year 2006

Effective at the end of fiscal year 2006, we adopted the provisions of SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)” (SFAS No. 158). SFAS No. 158 requires that the funded status of defined-benefit postretirement plans be recognized on our consolidated balance sheets and that changes in the funded status be reflected in other comprehensive income. SFAS No. 158 also requires that the measurement date of the plan’s funded status be the same as our fiscal year-end. Prior to adopting the provisions of SFAS No. 158, the measurement date for all non-U.S. plans was our fiscal year-end, and the measurement date for the U.S. plan was November. Therefore, the change in measurement date had an insignificant impact on the projected benefit obligation and accumulated other comprehensive income (loss). Upon adoption of SFAS No. 158 in 2006, we recorded an adjustment, net of tax, of \$210 million to accumulated other comprehensive income (loss).

Fiscal Year 2007

In fiscal year 2007, we adopted EITF 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 these compensated absences over the service period. We 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 in retained earnings of \$181 million at the beginning of 2007.

We also adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (FIN 48), and related guidance in fiscal year 2007. For further discussion, see “Note 23: Taxes.”

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fiscal Year 2008

In the first quarter of 2008, we adopted SFAS No. 157, "Fair Value Measurements" (SFAS No. 157), for all financial assets and financial liabilities, and for all non-financial assets and non-financial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. The adoption of SFAS No. 157 did not have a significant impact on our consolidated financial statements, and the resulting fair values calculated under SFAS No. 157 after adoption were not significantly different from the fair values that would have been calculated under previous guidance. For further details on our fair value measurements, see "Note 3: Fair Value."

In February 2008, the FASB issued FASB Staff Position (FSP) 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" (FSP 157-1), and FSP 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope and was effective upon initial adoption of SFAS No. 157. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities (for further details, see "Recent Accounting Pronouncements" below).

In October 2008, the FASB issued FSP 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP 157-3). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS No. 157. The adoption of FSP 157-3 did not have a significant impact on our consolidated financial statements or the fair values of our financial assets and liabilities.

In the first quarter of 2008, we adopted SFAS No. 159. SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value using an instrument-by-instrument election. The standard requires unrealized gains and losses to be reported in earnings for items measured using the fair value option. For further discussion, see "Note 3: Fair Value."

SFAS No. 159 also requires cash flows from purchases, sales, and maturities of trading securities to be classified based on the nature and purpose for which the securities were acquired. We assessed the nature and purpose of our trading assets and determined that our marketable debt instruments will be classified on the statement of cash flows as investing activities, as they are held with the purpose of generating returns. Our equity securities offsetting deferred compensation will continue to be classified as operating activities, as they are maintained to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. SFAS No. 159 does not allow for retrospective application to periods prior to fiscal year 2008; therefore, all trading asset activity for prior periods will continue to be presented as operating activities on the statement of cash flows.

Staff Accounting Bulletin No. 110 (SAB 110) issued by the U.S. Securities and Exchange Commission (SEC) was effective for us beginning in the first quarter of 2008. SAB 110 amends the SEC's views discussed in Staff Accounting Bulletin No. 107 (SAB 107) regarding the use of the simplified method in developing estimates of the expected lives of share options in accordance with SFAS No. 123(R). The amendment, in part, allowed the continued use, subject to specific criteria, of the simplified method in estimating the expected lives of share options granted after December 31, 2007. We will continue to use the simplified method until we have the historical data necessary to provide reasonable estimates of expected lives in accordance with SAB 107, as amended by SAB 110.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141(R)). Under SFAS No. 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. The adoption of SFAS No. 141(R) will change our accounting treatment for business combinations on a prospective basis beginning in the first quarter of fiscal year 2009.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In February 2008, the FASB issued FSP 157-2, which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal year 2009. The adoption of SFAS No. 157 for non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis is not expected to have a significant impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" (SFAS No. 161). The standard requires additional quantitative disclosures (provided in tabular form) and qualitative disclosures for derivative instruments. The required disclosures include how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows; the relative volume of derivative activity; the objectives and strategies for using derivative instruments; the accounting treatment for those derivative instruments formally designated as the hedging instrument in a hedge relationship; and the existence and nature of credit-risk-related contingent features for derivatives. SFAS No. 161 does not change the accounting treatment for derivative instruments. SFAS No. 161 is effective for us beginning in the first quarter of fiscal year 2009.

In May 2008, the FASB issued FSP Accounting Principles Board (APB) Opinion 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" (FSP APB 14-1). FSP APB 14-1 requires recognition of both the liability and equity components of convertible debt instruments with cash settlement features. The debt component is required to be recognized at the fair value of a similar instrument that does not have an associated equity component. The equity component is recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. FSP APB 14-1 also requires an accretion of the resulting debt discount over the expected life of the debt. Retrospective application to all periods presented is required. This standard is effective for us beginning in the first quarter of fiscal year 2009 and will change the accounting for our junior subordinated convertible debentures issued in 2005. The adoption of FSP APB 14-1 is expected to result in a decrease in our long-term debt of approximately \$700 million; an increase in our deferred tax liability of approximately \$275 million; an increase in our stockholders' equity of approximately \$450 million; and an increase in our net property, plant and equipment of approximately \$25 million as of the beginning of the first quarter of fiscal year 2009. The adoption of FSP APB 14-1 will not result in a change to our prior-period consolidated statements of income, as the interest associated with our debt issuances is capitalized and added to the cost of qualified assets.

In December 2008, the FASB issued FSP 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (FSP 132(R)-1). FSP 132(R)-1 requires additional disclosures for plan assets of defined benefit pension or other postretirement plans. The required disclosures include a description of our investment policies and strategies, the fair value of each major category of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets, and the significant concentrations of risk within plan assets. FSP 132(R)-1 does not change the accounting treatment for postretirement benefits plans. FSP 132(R)-1 is effective for us for fiscal year 2009.

Note 3: Fair Value

Our financial instruments are carried at fair value, except for cost basis loan participation notes, equity method and cost method investments, and most of our long-term debt. SFAS No. 157 defines fair value as 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, such as inherent risk, transfer restrictions, and risk of non-performance.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our financial instruments carried at fair value are detailed in the tables below, and the carrying values of our trading assets and available-for-sale investments for 2008 and 2007 are detailed in “Note 4: Trading Assets” and “Note 5: Available-for-Sale Investments.” The fair value of our cost basis loan participation notes approximated the carrying value as of December 27, 2008 (the fair value exceeded the carrying value by approximately \$50 million as of December 29, 2007). We did not hold any marketable equity method investments as of December 27, 2008; however, as of December 29, 2007, the fair value of our marketable equity method investment exceeded the carrying value by \$14 million. The fair value of our non-marketable equity investments exceeded the carrying value by approximately \$300 million as of December 27, 2008 and included gross unrealized losses of approximately \$100 million, a majority of which were in a continuous unrealized loss position for less than 12 months. The fair value of our non-marketable equity investments exceeded the carrying value by approximately \$600 million as of December 29, 2007. The fair value of these investments takes into account the movements of the equity and venture capital markets as well as changes in the interest rate environment, and other economic variables.

The fair value of our long-term debt was approximately \$280 million lower than the carrying value as of December 27, 2008 (the fair value exceeded the carrying value by approximately \$65 million as of December 29, 2007). The fair value of our long-term debt takes into consideration credit rating changes, equity price movements, interest rate changes, and other economic variables.

Fair Value Hierarchy

SFAS No. 157 establishes three levels of inputs that may be used to measure fair value:

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

Level 1 assets and liabilities consist of certain of our money market fund deposits and marketable debt and equity instruments, including equity securities offsetting deferred compensation, that are traded in an active market with sufficient volume and frequency of transactions.

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 assets consist of certain of our marketable debt and equity instruments with quoted market prices that are traded in less active markets or priced using a quoted market price for similar instruments. Level 2 assets also include marketable debt instruments priced using non-binding market consensus prices that can be corroborated with observable market data, marketable equity securities with security-specific restrictions that would transfer to the buyer, as well as debt instruments and derivative contracts priced using inputs that are observable in the market or can be derived principally from or corroborated with observable market data. Marketable debt instruments in this category generally include commercial paper, bank time deposits, municipal bonds, certain of our money market fund deposits, and a majority of floating-rate notes and corporate bonds.

Level 3. Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities.

Level 3 assets and liabilities include marketable debt instruments, non-marketable equity investments, derivative contracts, and company-issued debt whose values are determined using inputs that are both unobservable and significant to the values of the instruments being measured. Level 3 assets also include marketable debt instruments that are priced using non-binding market consensus prices or non-binding broker quotes that we were unable to corroborate with observable market data. Marketable debt instruments in this category generally include asset-backed securities and certain of our floating-rate notes and corporate bonds.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets/Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments as of December 27, 2008:

| <u>(In Millions)</u> | <u>Fair Value Measurements at Reporting Date Using</u> | | | <u>Total</u> |
|---|--|--|--|------------------|
| | <u>Quoted Prices in Active Markets for Identical Instruments (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | |
| Assets | | | | |
| Commercial paper | \$ — | \$ 4,387 | \$ — | \$ 4,387 |
| Bank time deposits | — | 633 | — | 633 |
| Money market fund deposits | 373 | 49 | — | 422 |
| Floating-rate notes | 126 | 5,997 | 392 | 6,515 |
| Corporate bonds | 26 | 594 | 163 | 783 |
| Asset-backed securities | — | — | 1,083 | 1,083 |
| Municipal bonds | — | 383 | — | 383 |
| Marketable equity securities | 308 | 44 | — | 352 |
| Equity securities offsetting deferred compensation | 299 | — | — | 299 |
| Derivative assets | — | 158 | 15 | 173 |
| Total assets measured at fair value | \$ 1,132 | \$ 12,245 | \$ 1,653 | \$ 15,030 |
| Liabilities | | | | |
| Long-term debt | \$ — | \$ — | \$ 122 | \$ 122 |
| Derivative liabilities | — | 274 | 25 | 299 |
| Total liabilities measured at fair value | \$ — | \$ 274 | \$ 147 | \$ 421 |

Assets and liabilities measured and recorded at fair value on a recurring basis, excluding accrued interest components, were presented on our consolidated balance sheets as of December 27, 2008 as follows:

| <u>(In Millions)</u> | <u>Fair Value Measurements at Reporting Date Using</u> | | | <u>Total</u> |
|---|--|--|--|------------------|
| | <u>Quoted Prices in Active Markets for Identical Instruments (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | |
| Assets | | | | |
| Cash and cash equivalents | \$ 336 | \$ 2,772 | \$ — | \$ 3,108 |
| Short-term investments | 149 | 4,953 | 227 | 5,329 |
| Trading assets | 328 | 2,020 | 814 | 3,162 |
| Other current assets | — | 158 | 3 | 161 |
| Marketable equity securities | 308 | 44 | — | 352 |
| Other long-term investments | 11 | 2,298 | 597 | 2,906 |
| Other long-term assets | — | — | 12 | 12 |
| Total assets measured at fair value | \$ 1,132 | \$ 12,245 | \$ 1,653 | \$ 15,030 |
| Liabilities | | | | |
| Other accrued liabilities | \$ — | \$ 236 | \$ 25 | \$ 261 |
| Long-term debt | — | — | 122 | 122 |
| Other long-term liabilities | — | 38 | — | 38 |
| Total liabilities measured at fair value | \$ — | \$ 274 | \$ 147 | \$ 421 |

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All of our long-term debt was eligible for the fair value option allowed by SFAS No. 159 as of the effective date of the standard; however, we elected the fair value option only for the bonds issued in 2007 by the Industrial Development Authority of the City of Chandler, Arizona (2007 Arizona bonds). In connection with the 2007 Arizona bonds, we entered into an interest rate swap agreement that effectively converts the fixed rate obligation on the bonds to a floating LIBOR-based rate. As a result, changes in the fair value of this debt are primarily offset by changes in the fair value of the interest rate swap agreement, without the need to apply the hedge accounting provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). We elected not to adopt SFAS No. 159 for our Arizona bonds issued in 2005, since the bonds were carried at amortized cost and were not eligible to apply the hedge accounting provisions of SFAS No. 133 due to the use of non-derivative hedging instruments. The 2007 Arizona bonds are included within the long-term debt balance on our consolidated balance sheets. As of December 27, 2008 and December 29, 2007, no other long-term debt instruments were similar to the instrument for which we have elected the SFAS No. 159 fair value treatment.

The fair value of the 2007 Arizona bonds approximated its carrying value at the time we elected the fair value option under SFAS No. 159. As such, we did not record a cumulative-effect adjustment to the beginning balance of retained earnings or to the deferred tax liability. As of December 27, 2008, the fair value of the 2007 Arizona bonds did not significantly differ from the contractual principal balance. The fair value of the 2007 Arizona bonds was determined using inputs that are observable in the market or that can be derived from or corroborated with observable market data as well as significant unobservable inputs. Gains and losses on the 2007 Arizona bonds are recorded in interest and other, net on the consolidated statements of income. We capitalize interest associated with the 2007 Arizona bonds. We add capitalized interest to the cost of qualified assets and amortize it over the estimated useful lives of the assets.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components, using significant unobservable inputs (Level 3) for 2008:

| (In Millions) | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | | | Total Gains (Losses) |
|---|---|-------------------|-----------------------------------|---|---------------------------------|-------------------|-------------------------|
| | Short-Term Investments | Trading Assets | Other Long-Term Investments | Other Current and Long-Term Assets | Other Accrued Liabilities | Long-Term Debt | |
| Balance as of December 29, 2007 | \$ 798 | \$ 1,004 | \$ 771 | \$ 18 | \$ (15) | \$ (125) | |
| Transfers from long-term to short-term investments | 229 | — | (229) | — | — | — | |
| Total gains or losses (realized and unrealized): | | | | | | | |
| Included in earnings | — | (83) | (22) | 4 | (13) | 3 | (111) |
| Included in other comprehensive income | 1 | — | (50) | — | — | — | (49) |
| Purchases, sales, issuances, and settlements, net. | (631) | (12) | 543 | (10) | 3 | — | |
| Transfers in (out) of Level 3 | (170) | (95) | (416) | 3 | — | — | |
| Balance as of December 27, 2008 | <u>\$ 227</u> | <u>\$ 814</u> | <u>\$ 597</u> | <u>\$ 15</u> | <u>\$ (25)</u> | <u>\$ (122)</u> | |

The amount of total gains or losses for the period included in earnings attributable to the changes in unrealized gains or losses related to assets and liabilities still held as of December 27, 2008

| | | | | | | | |
|--|------|---------|---------|------|---------|------|----------|
| | \$ — | \$ (83) | \$ (22) | \$ 4 | \$ (13) | \$ 3 | \$ (111) |
|--|------|---------|---------|------|---------|------|----------|

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gains and losses (realized and unrealized) included in earnings for the year ended December 27, 2008 are reported in interest and other, net and gains (losses) on other equity investments, net on the consolidated statements of income, as follows:

| <u>(In Millions)</u> | Level 3 | |
|---|----------------------------|---|
| | 2008 | |
| | Interest and Other, Net | Gains (Losses) on Other Equity Investments, Net |
| Total gains (losses) included in earnings | \$ (115) | \$ 4 |
| Change in unrealized gains (losses) related to assets and liabilities still held as of December 27, 2008 | \$ (115) | \$ 4 |

Assets/Liabilities Measured at Fair Value on a Non-recurring Basis

The following table presents the financial instruments that were measured at fair value on a non-recurring basis as of December 27, 2008, and the gains (losses) recorded during 2008 on those assets:

| <u>(In Millions)</u> | Carrying Value as of December 27, 2008 | Fair Value Measured Using | | | Total Gains (Losses) for 12 Months Ended December 27, 2008 |
|--|---|---|---|--|--|
| | | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Clearwire Communications, LLC | \$ 238 | \$ — | \$ 238 | \$ — | \$ (762) |
| Numonyx B.V. ¹ | \$ 484 | \$ — | \$ — | \$ 503 | \$ (250) |
| Other non-marketable equity investments | \$ 84 | \$ — | \$ — | \$ 84 | \$ (200) |
| Total gains (losses) for assets held as of December 27, 2008. | | | | | \$ (1,212) |
| Gains (losses) for assets no longer held. | | | | | \$ — |
| Total gains (losses) for non-recurring measurement. | | | | | \$ (1,212) |

¹ Our carrying value as of December 27, 2008 did not equal our fair value measurement at the time of impairment due to the subsequent recognition of equity method adjustments.

A portion of our non-marketable equity investments were measured at fair value during 2008 due to events or circumstances we identified that significantly impacted the fair value of these investments, resulting in other-than-temporary impairment charges.

During the fourth quarter of 2008, we recorded a \$762 million impairment charge on our investment in Clearwire Communications, LLC (Clearwire LLC) to write down our investment to its fair value, primarily due to the fair value being significantly lower than the cost basis of our investment. The impairment charge was included in gains (losses) on equity method investments, net on the consolidated statements of income. We determine the fair value of our investment in Clearwire LLC primarily using the quoted prices for its parent company, the new Clearwire Corporation. The effects of adjusting the quoted price for premiums that we believe market participants would consider for Clearwire LLC, such as tax benefits and voting rights associated with our investment, were mostly offset by the effects of discounts to the fair value, such as those due to transfer restrictions, lack of liquidity, and differences in dividend rights that are included in the value of the new Clearwire Corporation stock. We classified our investment in Clearwire LLC as Level 2, as the unobservable inputs to the valuation methodology were not significant to the measurement of fair value. For additional information about Clearwire, see “Note 6: Equity Method and Cost Method Investments.”

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We recorded a \$250 million impairment charge on our investment in Numonyx B.V. during the third quarter of 2008 to write down our investment to its fair value. Estimates for revenue, earnings, and future cash flows were revised lower due to a general decline in the NOR flash memory market segment. We measure the fair value of our investment in Numonyx using a combination of the income approach and the market approach. The income approach included the use of a weighted average of multiple discounted cash flow scenarios of Numonyx, which required the use of unobservable inputs, including assumptions of projected revenue, expenses, capital spending, and other costs, as well as a discount rate calculated based on the risk profile of the flash memory market segment. The market approach included using financial metrics and ratios of comparable public companies. The impairment charge was included in gains (losses) on equity method investments, net on the consolidated statements of income.

We also measured other non-marketable equity investments at fair value during 2008 when we recognized other-than-temporary impairment charges. We classified these impaired non-marketable equity investments as Level 3, as we use unobservable inputs to the valuation methodology that are significant to the fair value measurement, and the valuation requires management judgment due to the absence of quoted market prices and inherent lack of liquidity. We calculated these fair value measurements using the market approach and/or the income approach. The market approach includes the use of financial metrics and ratios of comparable public companies. The selection of comparable companies requires management judgment and is based on a number of factors, including comparable companies' sizes, growth rates, products and services lines, development stage, and other relevant factors. The income approach includes the use of a discounted cash flow model, which requires the following significant estimates for the investee: revenue, based on assumed market segment size and assumed market segment share; estimated costs; and appropriate discount rates based on the risk profile of comparable companies. Estimates of market segment size, market segment share, and costs are developed by the investee and/or Intel using historical data and available market data. The valuation of our other non-marketable equity investments also takes into account movements of the equity and venture capital markets, recent financing activities by the investees, changes in the interest rate environment, the investee's capital structure, liquidation preferences for the investee's capital, and other economic variables. The valuation of some of our investments in the wireless connectivity market segment was based on the income approach to determine the value of the investee's spectrum licenses, transmission towers, and customer lists.

Note 4: Trading Assets

Trading assets outstanding at fiscal year-ends were as follows:

| <u>(In Millions)</u> | 2008 | | 2007 | |
|--|-------------------------------------|-----------------|-------------------------------------|-----------------|
| | Net Unrealized Gains (Losses) | Fair Value | Net Unrealized Gains (Losses) | Fair Value |
| Marketable debt instruments | \$ (96) | \$ 2,863 | \$ 51 | \$ 2,074 |
| Equity securities offsetting deferred compensation | (41) | 299 | 163 | 492 |
| Total trading assets | \$ (137) | \$ 3,162 | \$ 214 | \$ 2,566 |

Net losses on marketable debt instruments that we classified as trading assets held at the reporting date were \$132 million in 2008 (gains of \$19 million in 2007 and \$31 million in 2006). Our net losses in 2008 on marketable debt instruments that we classified as trading assets held at the reporting date included \$87 million of losses related to asset-backed securities. Net losses on the related derivatives were \$5 million in 2008 (losses of \$37 million in 2007 and \$22 million in 2006). We maintain certain equity securities within our trading assets portfolio to generate returns that seek to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. These deferred compensation liabilities were \$332 million in 2008 (\$483 million in 2007) and are included in other accrued liabilities. Net losses on equity securities offsetting deferred compensation arrangements still held at the reporting date were \$209 million in 2008 (gains of \$28 million in 2007 and \$45 million in 2006).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5: Available-for-Sale Investments

Available-for-sale investments as of December 27, 2008 and December 29, 2007 were as follows:

| (In Millions) | 2008 | | | | 2007 | | | |
|---|------------------|------------------------|-------------------------|------------------|------------------|------------------------|-------------------------|------------------|
| | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Adjusted Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Floating-rate notes | \$ 6,321 | \$ 3 | \$ (127) | \$ 6,197 | \$ 6,254 | \$ 3 | \$ (31) | \$ 6,226 |
| Commercial paper | 2,329 | 3 | — | 2,332 | 4,981 | — | — | 4,981 |
| Non-U.S. government securities | 816 | 1 | — | 817 | 118 | — | — | 118 |
| Bank time deposits ¹ | 606 | 2 | — | 608 | 1,891 | 1 | — | 1,892 |
| Corporate bonds | 488 | 4 | (12) | 480 | 610 | 2 | (8) | 604 |
| Money market fund deposits | 419 | — | — | 419 | 1,824 | 1 | — | 1,825 |
| Marketable equity securities | 393 | 2 | (43) | 352 | 421 | 616 | (50) | 987 |
| Asset-backed securities | 374 | — | (43) | 331 | 937 | — | (23) | 914 |
| Domestic government securities | 159 | — | — | 159 | 121 | — | — | 121 |
| Repurchase agreements | — | — | — | — | 150 | — | — | 150 |
| Total available-for-sale investments | \$ 11,905 | \$ 15 | \$ (225) | \$ 11,695 | \$ 17,307 | \$ 623 | \$ (112) | \$ 17,818 |

| (In Millions) | 2008 Carrying Amount | 2007 Carrying Amount |
|--|----------------------|----------------------|
| Available-for-sale investments | \$ 11,695 | \$ 17,818 |
| Investments in loan participation notes (cost basis) | 20 | 111 |
| Cash on hand | 242 | 253 |
| Total | \$ 11,957 | \$ 18,182 |

| Reported as (In Millions) | 2008 | 2007 |
|--|------------------|------------------|
| Cash and cash equivalents | \$ 3,350 | \$ 7,307 |
| Short-term investments | 5,331 | 5,490 |
| Marketable equity securities | 352 | 987 |
| Other long-term investments | 2,924 | 4,398 |
| Total | \$ 11,957 | \$ 18,182 |

¹ Bank time deposits were primarily issued by institutions outside the U.S. in 2008 and 2007.

During the fourth quarter of 2008, Clearwire Corporation and Sprint Nextel Corporation combined their respective WiMAX businesses in conjunction with additional capital contributions from Intel and other investors to form a new company that retained the name Clearwire Corporation. The additional capital contributions included our cash investment of \$1.0 billion. Our pre-existing investment in Clearwire Corporation (old Clearwire Corporation) was converted into shares of the new company (new Clearwire Corporation) and the additional capital contribution of \$1.0 billion was invested in Clearwire Communications, LLC (Clearwire LLC), a wholly owned subsidiary of the new Clearwire Corporation. Our investment in the new Clearwire Corporation is accounted for as an available-for-sale investment and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

included in marketable equity securities. Our investment in Clearwire LLC is accounted for under the equity method and included within other long-term assets. As a result of the formation of the new Clearwire Corporation, our total ownership percentage decreased from 22% to 13%, resulting in a loss upon dilution of \$34 million, which we recorded to gains (losses) on equity method investments, net. For further discussion of our equity method investment in Clearwire LLC, see "Note 6: Equity Method and Cost Method Investments."

We sold available-for-sale investments, primarily marketable debt instruments, for proceeds of approximately \$1.2 billion in 2008. The gross realized gains on sales of available-for-sale investments totaled \$38 million and were primarily related to our sales of marketable equity securities. Impairment charges recognized on available-for-sale investments were \$354 million in 2008. The impairment charges in 2008 were primarily related to a \$176 million impairment charge on our investment in the new Clearwire Corporation and \$97 million of impairment charges on our investment in Micron Technology, Inc. Gross realized losses on sales were insignificant during 2008.

We sold available-for-sale investments for proceeds of approximately \$1.7 billion in 2007 and \$2.0 billion in 2006. The gross realized gains on our sales totaled \$138 million in 2007 and \$135 million in 2006. The gain in 2006 included a gain of \$103 million from the sale of a portion of our investment in Micron. We realized gains on third-party merger transactions that were insignificant during 2007 and \$79 million during 2006. Our recognized impairment charges on available-for-sale investments as well as gross realized losses on sales were insignificant during 2007 and 2006.

The available-for-sale investments that were in a continuous unrealized loss position as of December 27, 2008, aggregated by length of time that individual securities have been in a continuous loss position, were as follows:

| <u>(In Millions)</u> | Less than 12 Months | | 12 Months or Greater | | Total | |
|--|-------------------------------|-----------------|-------------------------------|-----------------|-------------------------------|-----------------|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| Floating-rate notes | \$ (67) | \$ 2,771 | \$ (60) | \$ 1,651 | \$ (127) | \$ 4,422 |
| Marketable equity securities | (43) | 322 | — | — | (43) | 322 |
| Asset-backed securities | — | — | (43) | 312 | (43) | 312 |
| Corporate bonds | (4) | 168 | (8) | 127 | (12) | 295 |
| Total | \$ (114) | \$ 3,261 | \$ (111) | \$ 2,090 | \$ (225) | \$ 5,351 |

The available-for-sale investments in a continuous unrealized loss position as of December 29, 2007 were as follows:

| <u>(In Millions)</u> | Less than 12 Months ¹ | |
|--|----------------------------------|-----------------|
| | Gross Unrealized Losses | Fair Value |
| Floating-rate notes | \$ (31) | \$ 4,626 |
| Asset-backed securities | (23) | 914 |
| Corporate bonds | (8) | 157 |
| Marketable equity securities | (50) | 129 |
| Total | \$ (112) | \$ 5,826 |

¹ Investments that were in a continuous unrealized loss position for 12 months or greater were not significant as of December 29, 2007.

As of December 27, 2008, the unrealized losses on our available-for-sale investments represented an insignificant amount in relation to our total available-for-sale portfolio. Substantially all of our unrealized losses on our available-for-sale marketable debt instruments can be attributed to fair value fluctuations in an unstable credit environment that resulted in a decrease in the market liquidity for debt instruments. As of December 27, 2008, a substantial majority of our available-for-sale investments in asset-backed securities in an unrealized loss position were rated AA-/Aa2 or better, and the majority of our available-for-sale investments in floating-rate notes and corporate bonds in an unrealized loss position were rated AA-/Aa2 or better. With the exception of a limited amount of investments for which we have recognized other-than-temporary impairments, we have not seen significant liquidation delays, and for those that have matured we have

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

received the full par value of our original debt investments. We have the intent and ability to hold our debt investments that have unrealized losses in accumulated other comprehensive income for a sufficient period of time to allow for recovery of the principal amounts invested, which may occur at or near the maturity of those investments. The substantial majority of the \$43 million of unrealized losses for marketable equity securities was attributed to the fair value decline of our investment in Micron. We believe that the unrealized losses in all of the above investments are temporary and that these losses do not represent a need for an other-than-temporary impairment, based on our evaluation of available evidence as of December 27, 2008.

The amortized cost and fair value of available-for-sale investments as of December 27, 2008, by contractual maturity, were as follows:

| <u>(In Millions)</u> | <u>Cost</u> | <u>Fair Value</u> |
|---|------------------|-------------------|
| Due in 1 year or less | \$ 8,024 | \$ 7,999 |
| Due in 1–2 years | 1,542 | 1,513 |
| Due in 2–5 years | 1,162 | 1,094 |
| Due after 5 years | 11 | 10 |
| Instruments not due at a single maturity date | 793 | 750 |
| Total | \$ 11,532 | \$ 11,366 |

Instruments not due at a single maturity date include asset-backed securities and money market fund deposits.

Note 6: Equity Method and Cost Method Investments

Equity Method Investments

Equity method investments as of December 27, 2008 and December 29, 2007 were as follows:

| <u>(In Millions, Except Percentages)</u> | <u>2008</u> | | <u>2007</u> | |
|--|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | <u>Carrying Value</u> | <u>Ownership Percentage</u> | <u>Carrying Value</u> | <u>Ownership Percentage</u> |
| IM Flash Technologies, LLC | \$ 1,742 | 49% | \$ 2,224 | 49% |
| IM Flash Singapore, LLP | 329 | 49% | 146 | 49% |
| Numonyx B.V. | 484 | 45% | — | —% |
| Clearwire Communications, LLC ¹ | 238 | 8% | — | —% |
| Old Clearwire Corporation ² | — | —% | 508 | 22% |
| Other equity method investments | 239 | | 227 | |
| Total | \$ 3,032 | | \$ 3,105 | |

¹ Represents our interest in the Clearwire LLC holding company, as a percentage of the consolidated new Clearwire Corporation.

² Our pre-existing investment in the old Clearwire Corporation was converted into shares of the new Clearwire Corporation and is recorded as a marketable equity security. For further discussion, see “Note 5: Available-for-Sale Investments.”

Our equity method investments are classified in other long-term assets on the consolidated balance sheets. The carrying value of our equity method investments, categorized as non-marketable and marketable equity method investments, as of December 27, 2008 and December 29, 2007, were as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> |
|--|-----------------|-----------------|
| Non-marketable equity method investments | \$ 3,032 | \$ 2,597 |
| Marketable equity method investment | — | 508 |
| Total | \$ 3,032 | \$ 3,105 |

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net losses on equity method investments were \$1.4 billion in 2008 (net gains of \$3 million in 2007 and \$2 million in 2006), including equity method impairment charges of \$1.1 billion in 2008 (\$28 million in 2007 and \$7 million in 2006). During 2008, we recognized a \$762 million impairment charge on our investment in Clearwire LLC (for information on the impairment of our available-for-sale investment in the new Clearwire Corporation, see “Note 7: Gains (Losses) on Other Equity Investments, Net”) and a \$250 million impairment charge on our investment in Numonyx. Equity method losses on our investment in the old Clearwire Corporation were \$184 million in 2008 and \$104 million in 2007, and equity method losses on our investment in Numonyx were \$87 million in 2008. In addition, the net gain on equity method investments in 2007 included approximately \$110 million of income due to the reorganization of one of our investments. Equity method losses were not significant in 2006.

Summarized Financial Information of Equity Method Investees

The following is the aggregated summarized financial information of our equity method investees, which includes summary results of operations information for fiscal years 2008, 2007, and 2006 and summary balance sheet information as of December 27, 2008 and December 29, 2007:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|-----------------------------------|-------------|-------------|-------------|
| Operating results: | | | |
| Net revenue | \$ 3,456 | \$ 1,484 | \$ 403 |
| Gross margin | \$ 444 | \$ 67 | \$ (13) |
| Operating income (loss) | \$ (702) | \$ (490) | \$ (76) |
| Net income (loss) | \$ (932) | \$ (674) | \$ (63) |

| <u>(In Millions)</u> | <u>Dec. 27, 2008</u> | <u>Dec. 29, 2007</u> |
|--------------------------------------|--------------------------|--------------------------|
| Balance sheet: | | |
| Current assets | \$ 3,257 | \$ 2,013 |
| Non-current assets | \$ 7,322 | \$ 5,703 |
| Current liabilities | \$ 1,316 | \$ 653 |
| Non-current liabilities | \$ 2,469 | \$ 1,150 |
| Redeemable preferred stock | \$ 50 | \$ 83 |
| Minority interest | \$ 10 | \$ 13 |

Summarized financial information for our equity method investees is presented on the basis of up to a one-quarter lag and is included for the periods in which we held an equity method ownership interest. Summarized financial information for Clearwire Corporation is presented as of September 30, 2008, and does not reflect any changes that have occurred as a result of Clearwire Corporation and Sprint Nextel Corporation combining their respective WiMAX businesses in the fourth quarter of 2008.

IMFT/IMFS

Micron and Intel formed IM Flash Technologies, LLC (IMFT) in January 2006 and IM Flash Singapore, LLP (IMFS) in February 2007. We established these joint ventures to manufacture NAND flash memory products for Micron and Intel. Intel owns a 49% interest in each of these ventures. Our investments were \$1.7 billion in IMFT and \$329 million in IMFS as of December 27, 2008 (\$2.2 billion in IMFT and \$146 million in IMFS as of December 29, 2007). Our investments in these ventures are classified within other long-term assets. During 2008, IMFT returned \$298 million to Intel, and that amount is reflected as a return of equity method investment within investing activities on the consolidated statements of cash flows.

As part of the initial capital contribution to IMFT, we paid \$615 million in cash and issued \$581 million in non-interest-bearing notes. During 2006, we paid the entire balance of \$581 million to settle the non-interest-bearing notes, which has been reflected as a financing activity on the consolidated statements of cash flows. At inception, Micron contributed assets valued at \$995 million and \$250 million in cash in exchange for a 51% interest. In addition, we contributed approximately \$1.3 billion over the past three years pursuant to the terms of the original agreement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Initial production from IMFT began in early 2006. Our portion of IMFT costs, primarily related to product purchases and start-up, was approximately \$1.1 billion during 2008 (approximately \$790 million during 2007 and \$300 million during 2006). The amount due to IMFT for product purchases and services provided was approximately \$190 million as of December 27, 2008 and approximately \$130 million as of December 29, 2007. Costs that Intel and Micron have incurred for product and process development related to IMFT are generally split evenly between Intel and Micron and are generally classified in research and development.

In the fourth quarter of 2008, management approved a plan with Micron to discontinue the supply of NAND flash memory from the 200mm facility within the IMFT manufacturing network. The agreement resulted in a \$215 million restructuring charge primarily related to the IMFT 200mm supply agreement. The restructuring charge resulted in a reduction of our investment in IMFT of \$184 million, a cash payment to Micron of \$24 million, and other cash payments of \$7 million.

Subject to certain conditions, we originally agreed to contribute up to approximately \$1.7 billion for IMFS in the three years following the initial capital contributions, of which our maximum remaining commitment was approximately \$1.3 billion as of December 27, 2008. However, the construction of the IMFS fabrication facility has been placed on hold.

IMFT and IMFS are each governed by a Board of Managers, with Micron and Intel initially appointing an equal number of managers to each of the boards. The number of managers appointed by each party adjusts depending on the parties' ownership interests. These ventures will operate until 2016 but are subject to prior termination under certain terms and conditions.

These joint ventures are variable interest entities as defined by FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" (FIN 46(R)), because all costs of the joint ventures will be passed on to Micron and Intel through our purchase agreements. IMFT and IMFS are dependent upon Micron and Intel for any additional cash requirements. Our known maximum exposure to loss approximated our investment balances as of December 27, 2008, which were \$1.7 billion in IMFT and \$329 million in IMFS (\$2.2 billion in IMFT and \$146 million in IMFS as of December 29, 2007). As of December 27, 2008, except for the amount due to IMFT and IMFS for product purchases and services, we did not incur any additional liabilities in connection with our interests in these joint ventures. In addition to the potential loss of our existing investments, our actual losses could be higher, as Intel and Micron are liable for other future operating costs and/or obligations of IMFT and IMFS. In addition, future cash calls could increase our investment balance and the related exposure to loss. Finally, as we are currently committed to purchasing 49% of IMFT's production output and production-related services, we may be required to purchase products at a cost in excess of realizable value.

Micron and Intel are also considered related parties under the provisions of FIN 46(R). As a result, the primary beneficiary is the entity that is most closely associated with the joint ventures. To make that determination, we reviewed several factors. The most important factors were consideration of the size and nature of the joint ventures' operations relative to Micron and Intel, and which party had the majority of economic exposure under the purchase agreements. Based on those factors, we have determined that Micron is most closely associated with the joint ventures; therefore, we account for our interests using the equity method of accounting and do not consolidate these joint ventures.

The fair value of our investment in IMFT and IMFS approximated carrying value as of December 27, 2008 and is included within other long-term assets. We determine the fair value of our investments in IMFT and IMFS and related intangible assets using the income approach, based on a weighted average of multiple discounted cash flow scenarios of our NAND Solutions Group business. The assumptions that most significantly affect the fair value determination are the estimates for the projected revenue and discount rate. It is reasonably possible that the estimates used in our valuation as of December 27, 2008 could change in the near term and result in an impairment of our investments. Based on our valuation as of December 27, 2008, a 5% decline in projected revenue in each of our cash flow scenarios would result in a decline in the fair value of our investment of up to approximately \$300 million, and a one percentage point increase in the discount rate would result in a decline in the fair value of our investment by approximately \$225 million.

In connection with an agreement between Intel and Apple, Inc. to supply a portion of the NAND flash memory output that we will purchase from IMFT, Apple provided a refundable \$250 million pre-payment to Intel. In the fourth quarter of 2008, the NAND flash memory supply agreement was terminated, and the remaining portion of the pre-payment of \$167 million was refunded to Apple.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Clearwire LLC

In the fourth quarter of 2008, we invested \$1.0 billion in Clearwire LLC, a wholly owned subsidiary of the new Clearwire Corporation. For further discussion, see “Note 5: Available-for-Sale Investments.” Our investment in Clearwire LLC is accounted for under the equity method of accounting, and our proportionate share of the income or loss is recognized on a one-quarter lag. As such, we did not record equity method adjustments during 2008 related to Clearwire LLC. The cost basis of this investment was initially \$17 per share, based on the transaction agreement entered into in the second quarter of 2008. During the fourth quarter of 2008, we recorded a \$762 million impairment charge on our investment in Clearwire LLC to write down our investment to its fair value of \$238 million. The impairment charge is included in gains (losses) on equity method investments, net on the consolidated statements of income. For further discussion, see “Note 3: Fair Value.”

Numonyx

In the second quarter of 2008, we divested our NOR flash memory business in exchange for a 45.1% ownership interest in Numonyx. For further discussion, see “Note 12: Divestitures.” Our initial ownership interest, comprising common stock and a note receivable, was recorded at \$821 million. Our investment is accounted for under the equity method of accounting, and our proportionate share of the income or loss is recognized on a one-quarter lag. During 2008, we recorded \$87 million of equity method losses and a \$250 million impairment charge on our investment in Numonyx within gains (losses) on equity method investments, net. For further discussion, see “Note 3: Fair Value.”

As of December 27, 2008, our investment balance in Numonyx was \$484 million and is included within other long-term assets. The carrying amount of our investment in Numonyx is approximately \$400 million below our share of the book value of the net assets of Numonyx. Most of this difference has been assigned to specific Numonyx long-lived assets, and our proportionate share of Numonyx income or loss will be adjusted to recognize this difference over the estimated remaining useful lives of those long-lived assets.

Additional terms of our investment in Numonyx include:

- We are leasing a facility in Israel to Numonyx for a period of up to 24 years under a fully paid, up-front operating lease. Upon completion of the divestiture, we recorded \$82 million of deferred income representing the value of the prepaid operating lease. The deferred income will generally offset the related depreciation over the lease term.
- We entered into supply and service agreements that involve the manufacture and the assembly and test of NOR flash memory products for Numonyx through 2008. The fair value of these agreements was \$110 million and was recorded in other accrued liabilities upon completion of the transaction. This amount was recognized during 2008, primarily as a reduction of cost of sales. In the fourth quarter of 2008, we agreed with Numonyx to extend certain supply and service agreements through the end of 2009.
- We entered into a transition services agreement that involves providing certain services, such as information technology, supply chain, and finance support, to Numonyx for up to one year. The reimbursement from Numonyx for these services offsets the related cost of sales and operating expenses.
- Numonyx entered into an unsecured, four-year senior credit facility of up to \$550 million, comprising a \$450 million term loan and a \$100 million revolving loan. Intel and STMicroelectronics N.V. have each provided the lenders with a guarantee of 50% of the payment obligations of Numonyx under the senior credit facility. A demand on our guarantee can be triggered if Numonyx is unable to meet its obligations under the credit facility. Acceleration of the obligations of Numonyx under the credit facility could be triggered by a monetary default of Numonyx or, in certain circumstances, by events affecting the creditworthiness of STMicroelectronics. This guarantee is within the scope of FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” The maximum amount of future undiscounted payments that we could be required to make under the guarantee is \$275 million plus accrued interest, expenses of the lenders, and penalties. As of December 27, 2008, the carrying amount of the liability associated with the guarantee was \$79 million and is included in other accrued liabilities.
- Our note receivable is subordinated to the senior credit facility and the preferential payout of Francisco Partners L.P., and will be deemed extinguished in liquidation events that generate proceeds insufficient to repay the senior credit facility and Francisco Partners’ preferential payout.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 27, 2008, approximately \$37 million was included in accounts receivable, net for supply and service agreements related to the manufacture and assembly and test of NOR flash memory products by Intel on behalf of Numonyx. As of December 27, 2008, approximately \$111 million was included in other current assets for amounts due to Intel from Numonyx, primarily for services performed under transition services agreements.

Cost Method Investments

Our non-marketable cost method investments are classified in other long-term assets on the consolidated balance sheets. The carrying value of our non-marketable cost method investments was \$1.0 billion as of December 27, 2008 and \$805 million as of December 29, 2007. We recognized impairment charges on non-marketable cost method investments of \$135 million in 2008 (\$90 million in 2007 and \$71 million in 2006).

Note 7: Gains (Losses) on Other Equity Investments, Net

Gains (losses) on other equity investments, net includes gains (losses) on our equity investments that were not accounted for under the equity method of accounting, and were as follows for the three years ended December 27, 2008:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|------------------------|----------------------|----------------------|
| Impairment charges | \$ (455) | \$ (92) | \$ (72) |
| Gains on sales | 60 | 204 | 151 |
| Other, net | 19 | 42 | 133 |
| Total gains (losses) on other equity investments, net | <u>\$ (376)</u> | <u>\$ 154</u> | <u>\$ 212</u> |

Impairment charges for 2008 included a \$176 million impairment charge recognized on our available-for-sale investment in the new Clearwire Corporation and \$97 million of impairment charges on our investment in Micron (for information on the impairment of our equity method investment in Clearwire LLC, see “Note 6: Equity Method and Cost Method Investments”). The impairment charge on our investment in the new Clearwire Corporation was due to the fair value being significantly lower than the cost basis of our investment. The impairment charges on our investment in Micron reflect the difference between our cost basis and the fair value of our investment in Micron at the end of the second and third quarters of 2008, and were principally based on our assessment of Micron’s financial results and the competitive environment, particularly for NAND flash memory products.

Note 8: Derivative Financial Instruments

Our primary objective for holding derivative financial instruments is to manage currency exchange rate risk and interest rate risk, and to a lesser extent, equity market risk and commodity price risk.

We currently do not enter into derivative instruments to manage credit risk; however, we manage our exposure to credit risk through our policies. We generally enter into derivative transactions with high-credit-quality counterparties and, by policy, limit the amount of credit exposure to any one counterparty based on our analysis of that counterparty’s relative credit standing. The amounts subject to credit risk related to derivative instruments are generally limited to the amounts, if any, by which a counterparty’s obligations exceed our obligations with that counterparty, because we enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions subject to International Swaps and Derivatives Association, Inc. (ISDA) agreements. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate transactions.

Currency Exchange Rate Risk

A majority of our revenue, expense, and capital purchasing activities are transacted in U.S. dollars. However, certain operating expenditures and capital purchases are incurred in or exposed to other currencies, primarily the euro, the Japanese yen, and the Israeli shekel. We have established balance sheet and forecasted transaction currency risk management programs to protect against fluctuations in fair value and the volatility of future cash flows caused by changes in exchange rates. These programs reduce, but do not always entirely eliminate, the impact of currency exchange movements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our currency risk management programs include:

- *Currency derivatives with cash flow hedge accounting designation* that utilize currency forward contracts and currency options to hedge exposures to the variability in the U.S.-dollar equivalent of anticipated non-U.S.-dollar-denominated cash flows. These instruments generally mature within 12 months. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of income as the impact of the hedged transaction.
- *Currency derivatives with fair value hedge accounting designation* that utilize currency forward contracts and currency options to hedge the fair value exposure of recognized foreign-currency-denominated assets or liabilities, or previously unrecognized firm commitments. For fair value hedges, we recognize gains or losses in earnings to offset fair value changes in the hedged transaction. As of December 27, 2008 and December 29, 2007, we did not have any derivatives designated as foreign currency fair value hedges.
- *Currency derivatives without hedge accounting designation* that utilize currency forward contracts or currency interest rate swaps to economically hedge the functional currency equivalent cash flows of recognized monetary assets and liabilities and non-U.S.-dollar-denominated debt instruments classified as trading assets. The maturity of these instruments generally occurs within 12 months, except for derivatives associated with certain long-term equity-related investments that generally mature within five years. Changes in the U.S.-dollar-equivalent cash flows of the underlying assets and liabilities are approximately offset by the changes in fair values of the related derivatives. We record net gains or losses in the income statement line item most closely associated with the economic underlying, primarily in interest and other, net, except for equity-related gains or losses, which we primarily record in gains (losses) on other equity investments, net.

Interest Rate Risk

Our primary objective for holding investments in debt instruments is to preserve principal while maximizing yields. We generally swap the returns on our investments in fixed-rate debt instruments with remaining maturities longer than six months into U.S. dollar three-month LIBOR-based returns unless management specifically approves otherwise.

Our interest rate risk management programs include:

- *Interest rate derivatives with cash flow hedge accounting designation* that utilize interest rate swap agreements to modify the interest characteristics of some of our investments. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) and reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction.
- *Interest rate derivatives with fair value hedge accounting designation* that utilize interest rate swap agreements to hedge the fair values of debt instruments. We recognize the gains or losses from the changes in fair value of these instruments, as well as the offsetting change in the fair value of the hedged long-term debt, in interest expense. As of December 27, 2008 and December 29, 2007, we did not have any interest rate derivatives designated as fair value hedges.
- *Interest rate derivatives without hedge accounting designation* that utilize interest rate swaps and currency interest rate swaps in economic hedging transactions, including hedges of non-U.S.-dollar-denominated debt instruments classified as trading assets. Floating interest rates on the swaps are reset on a monthly, quarterly, or semiannual basis. Changes in fair value of the debt instruments classified as trading assets are generally offset by changes in fair value of the related derivatives, both of which are recorded in interest and other, net.

Equity Market Risk

Our marketable investments include marketable equity securities and equity derivative instruments such as warrants and options. To the extent that our marketable equity securities have strategic value, we typically do not attempt to reduce or eliminate our market exposure; however, for our investments in strategic equity derivative instruments, including warrants, we may enter into transactions to reduce or eliminate the market risks. For securities that we no longer consider strategic, we evaluate legal, market, and economic factors in our decision on the timing of disposal and whether it is possible and appropriate to hedge the equity market risk.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our equity market risk management programs include:

- *Equity derivatives with hedge accounting designation* that utilize equity options, swaps, or forward contracts to hedge the equity market risk of marketable equity securities when these investments are not considered to have strategic value. These derivatives are generally designated as fair value hedges. We recognize the gains or losses from the change in fair value of these equity derivatives, as well as the offsetting change in the fair value of the underlying hedged equity securities, in gains (losses) on other equity investments, net. As of December 27, 2008 and December 29, 2007, we did not have any equity derivatives designated as fair value hedges.
- *Equity derivatives without hedge accounting designation* that utilize equity derivatives, such as warrants, equity options, or other equity derivatives. We recognize changes in the fair value of such derivatives in gains (losses) on other equity investments, net.

Commodity Price Risk

We operate facilities that consume commodities, and we have established forecasted transaction risk management programs to protect against fluctuations in fair value and the volatility of future cash flows caused by changes in commodity prices, such as those for natural gas. These programs reduce, but do not always entirely eliminate, the impact of commodity price movements.

Our commodity price risk management program includes:

- *Commodity derivatives with cash flow hedge accounting designation* that utilize commodity swap contracts to hedge future cash flow exposures to the variability in commodity prices. These instruments generally mature within 12 months. For these derivatives, we report the after-tax gain (loss) from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of income as the impact of the hedged transaction.

Credit Risk

We typically do not hold derivative instruments for the purpose of managing credit risk, since we limit the amount of credit exposure to any one counterparty and generally enter into derivative transactions with high-credit-quality counterparties. As of December 27, 2008 and December 29, 2007, our credit risk management program did not include credit derivatives.

Note 9: Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of investments in debt instruments, derivative financial instruments, and trade receivables. We also enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions subject to ISDA agreements.

We generally place investments with high-credit-quality counterparties and, by policy, limit the amount of credit exposure to any one counterparty based on our analysis of that counterparty's relative credit standing. Substantially all of our investments in debt instruments are with A/A2 or better rated issuers, and the majority of the issuers are rated AA-/Aa2 or better. Our investment policy requires all investments with original maturities of up to six months to be rated at least A-1/P-1 by Standard & Poor's/Moody's, and specifies a higher minimum rating for investments with longer maturities. For instance, investments with maturities of greater than three years require a minimum rating of AA-/Aa3 at the time of investment. Government regulations imposed on investment alternatives of our non-U.S. subsidiaries, or the absence of A rated counterparties in certain countries, result in some minor exceptions. Credit rating criteria for derivative instruments are similar to those for other investments. The amounts subject to credit risk related to derivative instruments are generally limited to the amounts, if any, by which a counterparty's obligations exceed our obligations with that counterparty. As of December 27, 2008, the total credit exposure to any single counterparty did not exceed \$500 million. We obtain and secure available collateral from counterparties against obligations, including securities lending transactions, when we deem it appropriate.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A substantial majority of our trade receivables are derived from sales to original equipment manufacturers and original design manufacturers. We also have accounts receivable derived from sales to industrial and retail distributors. Our two largest customers accounted for 38% of net revenue for 2008 and 35% of net revenue for 2007 and 2006. Additionally, these two largest customers accounted for 46% of our accounts receivable as of December 27, 2008 and 35% of our accounts receivable as of December 29, 2007. We believe that the receivable balances from these largest customers do not represent a significant credit risk based on cash flow forecasts, balance sheet analysis, and past collection experience.

We have adopted credit policies and standards intended to accommodate industry growth and inherent risk. We believe that credit risks are moderated by the financial stability of our major customers. We assess credit risk through quantitative and qualitative analysis, and from this analysis, we establish credit limits and determine whether we will seek to use one or more credit support devices, such as obtaining some form of third-party guaranty or standby letter of credit, or obtaining credit insurance for all or a portion of the account balance if necessary.

We continually monitor the credit risk in our portfolio and mitigate our credit and interest rate exposures in accordance with the policies approved by our Board of Directors. We intend to continue to closely monitor future developments in the credit markets and make appropriate changes to our investment policies as deemed necessary.

Note 10: Interest and Other, Net

The components of interest and other, net were as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|------------------------|
| Interest income | \$ 592 | \$ 804 | \$ 636 |
| Interest expense | (8) | (15) | (24) |
| Other, net | (96) | 4 | 590 |
| Total interest and other, net | <u>\$ 488</u> | <u>\$ 793</u> | <u>\$ 1,202</u> |

During 2006, we realized gains of \$612 million for three completed divestitures included within “other, net” in the table above. For further discussion, see “Note 12: Divestitures.”

Note 11: Acquisitions

Consideration for acquisitions that qualify as business combinations includes the cash paid and the value of any options assumed, less any cash acquired, and excludes contingent employee compensation payable in cash and any debt assumed. During 2008, we completed two acquisitions qualifying as business combinations in exchange for aggregate net cash consideration of \$16 million, plus certain liabilities. We allocated all of this consideration to goodwill. See “Note 13: Goodwill” for the goodwill allocation by reportable operating segment.

During 2007, we completed one acquisition qualifying as a business combination in exchange for net cash consideration of \$76 million, plus certain liabilities. We allocated a substantial majority of this consideration to goodwill. The acquired business and related goodwill was recorded within the all other category for segment reporting purposes. During 2006, we did not complete any acquisitions qualifying as business combinations.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12: Divestitures

During the first quarter of 2008, we completed the divestiture of a portion of the telecommunications-related assets of our optical platform division that were included in the Digital Enterprise Group operating segment. Consideration for the divestiture was approximately \$85 million, including \$75 million in cash and common shares of the acquiring company with an estimated value of \$10 million at the date of purchase. We entered into an agreement with the acquiring company to provide certain manufacturing and transition services for a limited time that has since been completed. During the first quarter of 2008, as a result of this divestiture, we recorded a net gain of \$39 million within interest and other, net. During the second quarter of 2008, we completed the sale of the remaining portion of our optical platform division for common shares of the acquiring company with an estimated value of \$27 million at the date of purchase. Overall, approximately 100 employees of our optical products business became employees of the acquiring company.

During the second quarter of 2008, we completed the divestiture of our NOR flash memory business. We exchanged certain NOR flash memory assets and certain assets associated with our phase change memory initiatives with Numonyx for a note receivable with a contractual amount of \$144 million and a 45.1% ownership interest in the form of common stock, together valued at \$821 million. We retain certain rights to intellectual property included within the divestiture. Approximately 2,500 employees of our NOR flash memory business became employees of Numonyx. STMicroelectronics contributed certain assets to Numonyx for a note receivable with a contractual amount of \$156 million and a 48.6% ownership interest in the form of common stock. Francisco Partners paid \$150 million in cash in exchange for the remaining 6.3% ownership interest in the form of preferred stock and a note receivable with a contractual amount of \$20 million. In addition, they received a payout right that is preferential relative to the investments of Intel and STMicroelectronics. We did not incur a gain or loss upon completion of the transaction in the second quarter of 2008, as we had recorded asset impairment charges in quarters prior to deal closure. For further discussion, see “Note 15: Restructuring and Asset Impairment Charges.” Subsequent to the divestiture, in the third quarter of 2008 we recorded a \$250 million impairment charge on our investment in Numonyx within gains (losses) on equity method investments. For further discussion on our investment and the terms of the divestiture, see “Note 6: Equity Method and Cost Method Investments.”

During the third quarter of 2006, we completed the divestiture of our media and signaling business and associated assets that were included in the Digital Enterprise Group operating segment. We received \$75 million in cash consideration. Approximately 375 employees of our media and signaling business became employees of the acquiring company. As a result of this divestiture, we recorded a reduction of goodwill of \$4 million. Additionally, we recorded a net gain of \$52 million within interest and other, net.

During the third quarter of 2006, we completed the divestiture of certain product lines and associated assets of our optical networking components business that were included in the Digital Enterprise Group operating segment. Consideration for the divestiture was \$115 million, including \$86 million in cash, and shares of the acquiring company with an estimated value of \$29 million. Approximately 55 employees of our optical networking components business became employees of the acquiring company. As a result of this divestiture, we recorded a reduction of goodwill of \$6 million. Additionally, we recorded a net gain of \$77 million within interest and other, net.

During the fourth quarter of 2006, we completed the divestiture of certain assets of our communications and application processor business to Marvell Technology Group, Ltd. for a cash purchase price of \$600 million plus the assumption of certain liabilities. We included the operating results associated with the divested assets of our communications and application processor business in the Mobility Group operating segment. Intel and Marvell also entered into an agreement whereby we provided certain manufacturing and transition services to Marvell. Approximately 1,300 employees of our communications and application processor business who were involved in a variety of functions, including engineering, product testing and validation, operations, and marketing, became employees of Marvell. As a result of this divestiture, we recorded a reduction of goodwill of \$2 million. Additionally, we recorded a net gain of \$483 million within interest and other, net.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13: Goodwill

Goodwill activity attributed to reportable operating segments for the years ended December 27, 2008 and December 29, 2007 was as follows:

| <u>(In Millions)</u> | <u>Digital Enterprise Group</u> | <u>Mobility Group</u> | <u>All Other</u> | <u>Total</u> |
|------------------------------------|---|---------------------------|----------------------|------------------------|
| December 30, 2006 | \$ 3,390 | \$ 248 | \$ 223 | \$ 3,861 |
| Addition | — | — | 60 | 60 |
| Other | (5) | — | — | (5) |
| December 29, 2007 | 3,385 | 248 | 283 | 3,916 |
| Additions | 9 | — | 9 | 18 |
| Transfer | 123 | — | (123) | — |
| Other | (2) | — | — | (2) |
| December 27, 2008 | <u>\$ 3,515</u> | <u>\$ 248</u> | <u>\$ 169</u> | <u>\$ 3,932</u> |

During 2008, we completed a reorganization that transferred the revenue and costs associated with a portion of the Digital Home Group's consumer PC components business to the Digital Enterprise Group. We reassigned \$123 million of goodwill from the Digital Home Group to the Digital Enterprise Group as a result of the reorganization. We reassigned goodwill to the Digital Enterprise Group based on the relative fair value of the business transferred to the estimated fair value of the Digital Home Group reporting unit before the reorganization. The remaining goodwill associated with the Digital Home Group reporting unit is included in the all other category. During 2008, we completed two acquisitions that resulted in goodwill of \$18 million. During 2007, we completed one acquisition that resulted in goodwill of \$60 million. For further discussion, see "Note 11: Acquisitions."

After completing our annual impairment reviews during the fourth quarter of 2008, 2007, and 2006, we concluded that goodwill was not impaired in any year.

Note 14: Identified Intangible Assets

We classify identified intangible assets within other long-term assets. Identified intangible assets consisted of the following as of December 27, 2008:

| <u>(In Millions)</u> | <u>Gross Assets</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
|---|------------------------|-------------------------------------|----------------------|
| Intellectual property assets | \$ 1,206 | \$ (582) | \$ 624 |
| Acquisition-related developed technology | 22 | (8) | 14 |
| Other intangible assets | 340 | (203) | 137 |
| Total identified intangible assets | <u>\$ 1,568</u> | <u>\$ (793)</u> | <u>\$ 775</u> |

During 2008, we acquired intellectual property assets for \$68 million with a weighted average life of 10 years.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Identified intangible assets consisted of the following as of December 29, 2007:

| <u>(In Millions)</u> | <u>Gross Assets</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
|---|---------------------|---------------------------------|---------------|
| Intellectual property assets | \$ 1,158 | \$ (438) | \$ 720 |
| Acquisition-related developed technology | 19 | (3) | 16 |
| Other intangible assets | 360 | (136) | 224 |
| Total identified intangible assets | \$ 1,537 | \$ (577) | \$ 960 |

During 2007, we acquired intellectual property assets for \$170 million with a weighted average life of 11 years. The majority of the intellectual property assets acquired represented the fair value of assets capitalized as a result of a settlement agreement with Transmeta Corporation. Pursuant to the agreement, we agreed to pay Transmeta a total of \$250 million in exchange for a technology license and other consideration. The present value of the settlement was \$236 million of which \$113 million was charged to cost of sales. The charge to cost of sales related to the portion of the license attributable to certain product sales through the third quarter of 2007. The remaining \$123 million represented the value of the intellectual property assets capitalized and is being amortized to cost of sales over the assets' remaining useful lives.

During 2007, we acquired acquisition-related developed technology for \$15 million with a weighted average life of four years, and recorded other intangible assets of \$40 million with a weighted average life of four years.

All of our identified intangible assets are subject to amortization. We recorded the amortization of identified intangible assets on the consolidated statements of income as follows: intellectual property assets generally in cost of sales; acquisition-related developed technology in marketing, general and administrative; and other intangible assets as either a reduction of revenue or marketing, general and administrative.

Amortization expenses for the three years ended December 27, 2008 were as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|-------------|-------------|-------------|
| Intellectual property assets | \$ 164 | \$ 159 | \$ 178 |
| Acquisition-related developed technology | \$ 5 | \$ 1 | \$ 20 |
| Other intangible assets | \$ 87 | \$ 92 | \$ 59 |

Based on identified intangible assets recorded as of December 27, 2008, and assuming that the underlying assets will not be impaired in the future, we expect amortization expenses for each period to be as follows:

| <u>(In Millions)</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Intellectual property assets | \$ 142 | \$ 132 | \$ 79 | \$ 68 | \$ 51 |
| Acquisition-related developed technology | \$ 5 | \$ 5 | \$ 4 | \$ — | \$ — |
| Other intangible assets | \$ 124 | \$ 13 | \$ — | \$ — | \$ — |

Note 15: Restructuring and Asset Impairment Charges

The following table summarizes restructuring and asset impairment charges by plan for the three years ended December 27, 2008:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|---------------|---------------|---------------|
| 2008 NAND plan | \$ 215 | \$ — | \$ — |
| 2006 efficiency program | 495 | 516 | 555 |
| Total restructuring and asset impairment charges | \$ 710 | \$ 516 | \$ 555 |

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We may incur additional restructuring charges in the future for employee severance and benefit arrangements, and facility-related or other exit activities. Subsequent to the end of 2008, management approved plans to restructure some of our manufacturing and assembly and test operations, and align our manufacturing and assembly and test capacity to current market conditions. These actions, which are expected to take place beginning in 2009, include closing two assembly and test facilities in Malaysia, one facility in the Philippines, and one facility in China; stopping production at a 200mm wafer fabrication facility in Oregon; and ending production at our 200mm wafer fabrication facility in California.

2008 NAND Plan

In the fourth quarter of 2008, management approved a plan with Micron to discontinue the supply of NAND flash memory from the 200mm facility within the IMFT manufacturing network. The agreement resulted in a \$215 million restructuring charge, primarily related to the IMFT 200mm supply agreement. The restructuring charge resulted in a reduction of our investment in IMFT of \$184 million, a cash payment to Micron of \$24 million, and other cash payments of \$7 million.

2006 Efficiency Program

The following table summarizes charges for the 2006 efficiency program for the three years ended December 27, 2008:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|----------------------|----------------------|----------------------|
| Employee severance and benefit arrangements | \$ 151 | \$ 289 | \$ 238 |
| Asset impairments | 344 | 227 | 317 |
| Total | <u>\$ 495</u> | <u>\$ 516</u> | <u>\$ 555</u> |

In the third quarter of 2006, management approved several actions recommended by our structure and efficiency task force as part of a restructuring plan designed to improve operational efficiency and financial results. Some of these activities have involved cost savings or other actions that did not result in restructuring charges, such as better utilization of assets, reduced spending, and organizational efficiencies. The efficiency program has included targeted headcount reductions for various groups within the company, which we have met through employee attrition and terminations. Business divestitures have further reduced our headcount.

During 2006, we completed the divestiture of three businesses. For further discussion, see “Note 12: Divestitures.” In connection with the divestiture of certain assets of our communications and application processor business, we recorded impairment charges of \$103 million related to the write-down of manufacturing tools to their fair value, less the cost to dispose of the assets. We determined the fair value using a market-based valuation technique. In addition, as a result of both this divestiture and a subsequent assessment of our worldwide manufacturing capacity operations, we placed for sale our fabrication facility in Colorado Springs, Colorado. This plan resulted in an impairment charge of \$214 million to write down to fair value the land, building, and equipment asset grouping that has been principally used to support our communications and application processor business. We determined the fair market value of the asset grouping using an average of the results from using the cost approach and market approach valuation techniques.

During 2007, we incurred an additional \$54 million in asset impairment charges as a result of market conditions related to the Colorado Springs facility. Also, we recorded land and building write-downs related to certain facilities in Santa Clara, California. In addition, we incurred \$85 million in asset impairment charges related to assets that we sold in conjunction with the divestiture of our NOR flash memory business. We determined the impairment charges based on the fair value, less selling costs, that we expected to receive upon completion of the divestiture.

During 2008, we incurred additional asset impairment charges related to the Colorado Springs facility, based on market conditions. Also, we incurred \$275 million in additional asset impairment charges related to assets that we sold in conjunction with the divestiture of our NOR flash memory business. We determined the impairment charges using the revised fair value of the equity and note receivable that we received upon completion of the divestiture, less selling costs. The lower fair value was primarily a result of a decline in the outlook for the flash memory market segment. For further information on this divestiture, see “Note 12: Divestitures.”

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the restructuring and asset impairment activity for the 2006 efficiency program during 2007 and 2008:

| <u>(In Millions)</u> | <u>Employee Severance and Benefits</u> | <u>Asset Impairments</u> | <u>Total</u> |
|--|--|--------------------------|---------------|
| Accrued restructuring balance as of December 30, 2006 | \$ 48 | \$ — | \$ 48 |
| Additional accruals | 299 | 227 | 526 |
| Adjustments | (10) | — | (10) |
| Cash payments | (210) | — | (210) |
| Non-cash settlements | — | (227) | (227) |
| Accrued restructuring balance as of December 29, 2007 | \$ 127 | \$ — | \$ 127 |
| Additional accruals | 167 | 344 | 511 |
| Adjustments | (16) | — | (16) |
| Cash payments | (221) | — | (221) |
| Non-cash settlements | — | (344) | (344) |
| Accrued restructuring balance as of December 27, 2008 | \$ 57 | \$ — | \$ 57 |

We recorded the additional accruals, net of adjustments, as restructuring and asset impairment charges. The remaining accrual as of December 27, 2008 was related to severance benefits that we recorded within accrued compensation and benefits.

From the third quarter of 2006 through the fourth quarter of 2008, we incurred a total of \$1.6 billion in restructuring and asset impairment charges related to this program. These charges included a total of \$678 million related to employee severance and benefit arrangements for approximately 11,900 employees, and \$888 million in asset impairment charges.

Note 16: Borrowings

Short-Term Debt

Short-term debt included non-interest-bearing drafts payable of \$100 million and the current portion of long-term debt of \$2 million as of December 27, 2008 (drafts payable of \$140 million and the current portion of long-term debt of \$2 million as of December 29, 2007). We have an ongoing authorization from our Board of Directors to borrow up to \$3.0 billion, including through the issuance of commercial paper. Maximum borrowings under our commercial paper program during 2008 were approximately \$1.3 billion. We did not have outstanding commercial paper as of December 27, 2008. There were no borrowings under our commercial paper program during 2007. Our commercial paper was rated A-1+ by Standard & Poor's and P-1 by Moody's as of December 27, 2008.

Long-Term Debt

Our long-term debt at fiscal year-ends was as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> |
|--|-----------------|-----------------|
| Junior subordinated convertible debentures due 2035 at 2.95% | \$ 1,587 | \$ 1,586 |
| 2005 Arizona bonds due 2035 at 4.375% | 158 | 159 |
| 2007 Arizona bonds due 2037 at 5.3% | 122 | 125 |
| Euro debt due 2009–2017 at 7% | 20 | 111 |
| Other debt | 1 | 1 |
| | 1,888 | 1,982 |
| Less: current portion of long-term debt | (2) | (2) |
| Total long-term debt | \$ 1,886 | \$ 1,980 |

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2005, we issued \$1.6 billion of 2.95% junior subordinated convertible debentures (the debentures) due 2035. The debentures are convertible, subject to certain conditions, into shares of our common stock at an initial conversion rate of 31.7162 shares of common stock per \$1,000 principal amount of debentures, representing an initial effective conversion price of approximately \$31.53 per share of common stock. Holders can surrender the debentures for conversion at any time. The conversion rate will be subject to adjustment for certain events outlined in the indenture governing the debentures (the indenture), but will not be adjusted for accrued interest. In addition, the conversion rate will increase for a holder who elects to convert the debentures in connection with certain share exchanges, mergers, or consolidations involving Intel, as described in the indenture. The debentures, which pay a fixed rate of interest semiannually, have a contingent interest component that will require us to pay interest based on certain thresholds and for certain events commencing on December 15, 2010, as outlined in the indenture. The maximum amount of contingent interest that will accrue is 0.40% per year. The fair value of the related embedded derivative was not significant as of December 27, 2008 or December 29, 2007.

We can settle any conversion or repurchase of the debentures in cash or stock at our option. On or after December 15, 2012, we can redeem, for cash, all or part of the debentures for the principal amount, plus any accrued and unpaid interest, if the closing price of Intel common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading-day period prior to the date on which we provide notice of redemption. If certain events occur in the future, the indenture provides that each holder of the debentures can, for a pre-defined period of time, require us to repurchase the holder's debentures for the principal amount plus any accrued and unpaid interest. The debentures are subordinated in right of payment to our existing and future senior debt and to the other liabilities of our subsidiaries. We concluded that the debentures are not conventional convertible debt instruments and that the embedded stock conversion option qualifies as a derivative under SFAS No. 133. In addition, in accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," we have concluded that the embedded conversion option would be classified in stockholders' equity if it were a freestanding instrument. As such, the embedded conversion option is not accounted for separately as a derivative.

In 2005, we guaranteed repayment of principal and interest on bonds issued by the Industrial Development Authority of the City of Chandler, Arizona, which constitutes an unsecured general obligation for Intel. The aggregate principal amount, including the premium, of the bonds issued in 2005 (2005 Arizona bonds) was \$160 million. The bonds are due in 2035 and bear interest at a fixed rate of 4.375% until 2010. The 2005 Arizona bonds are subject to mandatory tender on November 30, 2010, at which time we can re-market the bonds as either fixed-rate bonds for a specified period or as variable-rate bonds until their final maturity on December 1, 2035.

In 2007, we guaranteed repayment of principal and interest on bonds issued by the Industrial Development Authority of the City of Chandler, Arizona, which constitute an unsecured general obligation for Intel. The aggregate principal amount of the bonds issued in December 2007 (2007 Arizona bonds) is \$125 million due in 2037, and the bonds bear interest at a fixed rate of 5.3%. The 2007 Arizona bonds are subject to mandatory tender, at our option, on any interest payment date beginning on or after December 1, 2012 until their final maturity on December 1, 2037. Upon such tender, we can re-market the bonds as either fixed-rate bonds for a specified period or as variable-rate bonds until their final maturity. We also entered into an interest rate swap agreement, from a fixed rate to a floating LIBOR-based return. At the beginning of the first quarter of 2008, we elected the provisions of SFAS No. 159 for the 2007 Arizona bonds, and we record these bonds at fair value. For further discussion, see "Note 3: Fair Value."

We have euro borrowings that we made in connection with financing manufacturing facilities and equipment in Ireland. We invested the proceeds in euro-denominated loan participation notes of similar maturity to reduce currency and interest rate exposures. During 2008, we retired \$96 million in euro borrowings prior to their maturity dates through the simultaneous settlement of an equivalent amount of investments in loan participation notes.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 27, 2008, our aggregate debt maturities were as follows (in millions):

| <u>Year Payable</u> | |
|-------------------------------|------------------------|
| 2009 | \$ 2 |
| 2010 | 160 |
| 2011 | 2 |
| 2012 | 2 |
| 2013 | 2 |
| 2014 and thereafter | 1,723 |
| Total | <u>\$ 1,891</u> |

Note 17: Retirement Benefit Plans

Profit Sharing Plans

We provide tax-qualified profit sharing retirement plans for the benefit of eligible employees, former employees, and retirees in the U.S. and certain other countries. The plans are designed to provide employees with an accumulation of funds for retirement on a tax-deferred basis and provide for annual discretionary employer contributions. Our Chief Executive Officer (CEO) determines the amounts to be contributed to the U.S. Profit Sharing Plan under delegation of authority from our Board of Directors, pursuant to the terms of the Profit Sharing Plan. As of December 27, 2008, approximately 75% of our U.S. Profit Sharing Fund was invested in equities, and approximately 25% was invested in fixed-income instruments. Most assets are managed by external investment managers.

For the benefit of eligible U.S. employees, we also provide a non-tax-qualified supplemental deferred compensation plan for certain highly compensated employees. This plan is designed to permit certain discretionary employer contributions and to permit employee deferral of a portion of salaries in excess of certain tax limits and deferral of bonuses. This plan is unfunded.

We expensed \$289 million for the qualified and non-qualified U.S. profit sharing retirement plans in 2008 (\$302 million in 2007 and \$313 million in 2006). In the first quarter of 2009, we funded \$276 million for the 2008 contribution to the qualified U.S. Profit Sharing Plan.

Contributions that we make to the U.S. Profit Sharing Plan on behalf of our employees vest based on the employee's years of service. Vesting occurs after two years of service in 20% annual increments until the employee is 100% vested after six years, or earlier if the employee reaches age 60.

Pension and Postretirement Benefit Plans

U.S. Pension Benefits. We provide a tax-qualified defined-benefit pension plan for the benefit of eligible employees and retirees in the U.S. The plan provides for a minimum pension benefit that is determined by a participant's years of service and final average compensation (taking into account the participant's social security wage base), reduced by the participant's balance in the U.S. Profit Sharing Plan. If the pension benefit exceeds the participant's balance in the U.S. Profit Sharing Plan, the participant will receive a combination of pension and profit sharing amounts equal to the pension benefit. However, the participant will receive only the benefit from the Profit Sharing Plan if that benefit is greater than the value of the pension benefit. If we do not continue to contribute to, or significantly reduce contributions to, the U.S. Profit Sharing Plan, the projected benefit obligation of the U.S. defined-benefit plan could increase significantly. The significant decrease in the fair value of the U.S. Profit Sharing Plan assets during 2008 contributed to an increase in the projected benefit obligation of the U.S. defined-benefit plan.

Non-U.S. Pension Benefits. We also provide defined-benefit pension plans in certain other countries. Consistent with the requirements of local law, we deposit funds for certain plans with insurance companies, with third-party trustees, or into government-managed accounts, and/or accrue for the unfunded portion of the obligation. The assumptions used in calculating the obligation for the non-U.S. plans depend on the local economic environment.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Postretirement Medical Benefits. Upon retirement, eligible U.S. employees are credited with a defined dollar amount based on years of service. These credits can be used to pay all or a portion of the cost to purchase coverage in an Intel-sponsored medical plan. If the available credits are not sufficient to pay the entire cost of the coverage, the remaining cost is the responsibility of the retiree.

Funding Policy. Our practice is to fund the various pension plans in amounts sufficient to meet the minimum requirements of U.S. federal laws and regulations or applicable local laws and regulations. Additional funding may be provided as deemed appropriate. The assets of the various plans are invested in corporate equities, corporate debt instruments, government securities, and other institutional arrangements. The portfolio of each plan depends on plan design and applicable local laws. Depending on the design of the plan, local customs, and market circumstances, the liabilities of a plan may exceed qualified plan assets. We accrue for all such liabilities.

Benefit Obligation and Plan Assets

The changes in the benefit obligations and plan assets for the plans described above were as follows:

| <u>(In Millions)</u> | <u>U.S. Pension Benefits</u> | | <u>Non-U.S. Pension Benefits</u> | | <u>Postretirement Medical Benefits</u> | |
|--|------------------------------|----------------------|----------------------------------|----------------------|--|----------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Change in projected benefit obligation: | | | | | | |
| Beginning benefit obligation | \$ 291 | \$ 345 | \$ 794 | \$ 686 | \$ 213 | \$ 204 |
| Service cost | 14 | 18 | 64 | 70 | 12 | 12 |
| Interest cost | 16 | 17 | 42 | 37 | 12 | 11 |
| Plan participants' contributions | — | — | 10 | 10 | 3 | 3 |
| Actuarial (gain) loss | 244 | (31) | (157) | (59) | (60) | (11) |
| Currency exchange rate changes | — | — | 13 | 77 | — | — |
| Plan amendments | — | (25) | — | — | — | — |
| Plan curtailments ¹ | — | — | (20) | — | — | — |
| Plan settlements ¹ | — | — | (27) | — | — | — |
| Benefits paid to plan participants | (23) | (33) | (28) | (27) | (7) | (6) |
| Ending projected benefit obligation | <u>\$ 542</u> | <u>\$ 291</u> | <u>\$ 691</u> | <u>\$ 794</u> | <u>\$ 173</u> | <u>\$ 213</u> |

| <u>(In Millions)</u> | <u>U.S. Pension Benefits</u> | | <u>Non-U.S. Pension Benefits</u> | | <u>Postretirement Medical Benefits</u> | |
|---|------------------------------|----------------------|----------------------------------|----------------------|--|--------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Change in plan assets: | | | | | | |
| Beginning fair value of plan assets | \$ 227 | \$ 245 | \$ 548 | \$ 447 | \$ 1 | \$ 1 |
| Actual return on plan assets | (6) | 15 | (132) | 20 | (1) | (1) |
| Employer contributions | 105 | — | 80 | 52 | 5 | 4 |
| Plan participants' contributions | — | — | 10 | 10 | 3 | 3 |
| Currency exchange rate changes | — | — | 22 | 49 | — | — |
| Plan settlements ¹ | — | — | (43) | — | — | — |
| Benefits paid to participants | (23) | (33) | (28) | (30) | (7) | (6) |
| Ending fair value of plan assets² | <u>\$ 303</u> | <u>\$ 227</u> | <u>\$ 457</u> | <u>\$ 548</u> | <u>\$ 1</u> | <u>\$ 1</u> |

¹ 2008 curtailments and settlements were primarily related to the divestiture of our NOR flash memory business for employees at our Israel and Philippines facilities.

² As of December 27, 2008, our plan financial assets and liabilities were valued using the provisions of SFAS No. 157.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the amounts recognized on the consolidated balance sheet as of December 27, 2008:

| <u>(In Millions)</u> | <u>U.S. Pension Benefits</u> | <u>Non-U.S. Pension Benefits</u> | <u>Postretirement Medical Benefits</u> |
|---|------------------------------|----------------------------------|--|
| Other long-term assets | \$ — | \$ 39 | \$ — |
| Accrued compensation and benefits | — | (4) | (4) |
| Other long-term liabilities | (239) | (269) | (168) |
| Accumulated other comprehensive loss (income) | 307 | 167 | (49) |
| Net amount recognized | \$ 68 | \$ (67) | \$ (221) |

The following table summarizes the amounts recorded to accumulated other comprehensive income (loss) before taxes, as of December 27, 2008:

| <u>(In Millions)</u> | <u>U.S. Pension Benefits</u> | <u>Non-U.S. Pension Benefits</u> | <u>Postretirement Medical Benefits</u> |
|--|------------------------------|----------------------------------|--|
| Net prior service cost | \$ — | \$ — | \$ (16) |
| Net actuarial gain (loss) | (307) | (165) | 65 |
| Reclassification adjustment of transition obligation | — | (2) | — |
| Defined benefit plans, net | \$ (307) | \$ (167) | \$ 49 |

The following table summarizes the amounts recognized on the consolidated balance sheet as of December 29, 2007:

| <u>(In Millions)</u> | <u>U.S. Pension Benefits</u> | <u>Non-U.S. Pension Benefits</u> | <u>Postretirement Medical Benefits</u> |
|--|------------------------------|----------------------------------|--|
| Other long-term assets | \$ — | \$ 53 | \$ — |
| Accrued compensation and benefits | — | (6) | (10) |
| Other long-term liabilities | (64) | (293) | (202) |
| Accumulated other comprehensive loss | 49 | 146 | 15 |
| Net amount recognized | \$ (15) | \$ (100) | \$ (197) |

Included in the aggregate data in the following tables are the amounts applicable to our pension plans, with accumulated benefit obligations in excess of plan assets, as well as plans with projected benefit obligations in excess of plan assets. Amounts related to such plans were as follows:

| <u>(In Millions)</u> | <u>U.S. Pension Benefits</u> | | <u>Non-U.S. Pension Benefits</u> | |
|---|------------------------------|-------------|----------------------------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Plans with accumulated benefit obligations in excess of plan assets: | | | | |
| Accumulated benefit obligations | \$ — | \$ — | \$ 447 | \$ 155 |
| Plan assets | \$ — | \$ — | \$ 255 | \$ 31 |
| Plans with projected benefit obligations in excess of plan assets: | | | | |
| Projected benefit obligations | \$ 542 | \$ 291 | \$ 531 | \$ 573 |
| Plan assets | \$ 303 | \$ 227 | \$ 258 | \$ 274 |

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assumptions

Weighted-average actuarial assumptions used to determine benefit obligations for the plans were as follows:

| | <u>U.S. Pension Benefits</u> | | <u>Non-U.S. Pension Benefits</u> | | <u>Postretirement Medical Benefits</u> | |
|---|------------------------------|-------------|----------------------------------|-------------|--|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Discount rate | 6.7% | 5.6% | 5.6% | 5.5% | 6.8% | 5.6% |
| Rate of compensation increase | 5.0% | 5.0% | 3.5% | 4.5% | — | — |

Weighted-average actuarial assumptions used to determine costs for the plans were as follows:

| | <u>U.S. Pension Benefits</u> | | <u>Non-U.S. Pension Benefits</u> | | <u>Postretirement Medical Benefits</u> | |
|--|------------------------------|-------------|----------------------------------|-------------|--|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Discount rate | 5.6% | 5.5% | 5.2% | 5.2% | 5.6% | 5.5% |
| Expected return on plan assets | 5.1% | 5.6% | 6.5% | 6.2% | — | — |
| Rate of compensation increase | 5.0% | 5.0% | 4.3% | 4.5% | — | — |

For the U.S. plans, we developed the discount rate by calculating the benefit payment streams by year to determine when benefit payments will be due. We then matched the benefit payment streams by year to the AA corporate bond rates to match the timing and amount of the expected benefit payments and discounted back to the measurement date to determine the appropriate discount rate. For the non-U.S. plans, we used two approaches to develop the discount rate. In certain countries, we used a model consisting of a theoretical bond portfolio for which the timing and amount of cash flows approximates the estimated benefit payments of our pension plans. In other countries, we analyzed current market long-term bond rates and matched the bond maturity with the average duration of the pension liabilities. We consider several factors in developing the asset return assumptions for the U.S. and non-U.S. plans. We analyzed rates of return relevant to the country where each plan is in effect and the investments applicable to the plan, expectations of future returns, local actuarial projections, and the projected long-term rates of return from investment managers. The expected long-term rate of return shown for the non-U.S. plan assets is weighted to reflect each country's relative portion of the non-U.S. plan assets.

Net Periodic Benefit Cost

The net periodic benefit cost for the plans included the following components:

| <u>(In Millions)</u> | <u>U.S. Pension Benefits</u> | | | <u>Non-U.S. Pension Benefits</u> | | | <u>Postretirement Medical Benefits</u> | | |
|---|------------------------------|--------------------|--------------------|----------------------------------|---------------------|---------------------|--|---------------------|---------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
| Service cost | \$ 14 | \$ 18 | \$ 4 | \$ 64 | \$ 70 | \$ 51 | \$ 12 | \$ 6 | \$ 12 |
| Interest cost | 16 | 17 | 13 | 42 | 37 | 27 | 12 | 11 | 10 |
| Expected return on plan assets | (11) | (10) | (12) | (39) | (29) | (15) | — | — | — |
| Amortization of prior service cost | — | (25) | — | — | 1 | — | 4 | 4 | 4 |
| Recognized net actuarial loss | 1 | 7 | — | 6 | 11 | — | — | — | — |
| Recognized curtailment gains ¹ | — | — | — | (4) | — | — | — | — | — |
| Recognized settlement losses ¹ | — | — | — | 17 | — | — | — | — | — |
| Net periodic benefit cost | <u>\$ 20</u> | <u>\$ 7</u> | <u>\$ 5</u> | <u>\$ 86</u> | <u>\$ 90</u> | <u>\$ 63</u> | <u>\$ 28</u> | <u>\$ 21</u> | <u>\$ 26</u> |

¹ 2008 curtailments and settlements were primarily related to the divestiture of our NOR flash memory business for employees at our Israel and Philippines facilities.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

U.S. Plan Assets

In general, the investment strategy for U.S. plan assets is to assure that the pension assets are available to pay benefits as they come due and to minimize market risk. When deemed appropriate, we may invest a portion of the fund in futures contracts for the purpose of acting as a temporary substitute for an investment in a particular equity security. The fund does not engage in speculative futures transactions. The U.S. plan assets are managed to remain within the target allocation ranges listed below. As of December 27, 2008, our plan assets were not within our target allocation due to market volatility. At times our allocation will temporarily fall outside the target allocation range, as we re-allocate plan assets due to market conditions, such as volatility and liquidity concerns, to minimize market risk. The expected long-term rate of return for the U.S. plan assets is 4.5%.

The asset allocation for our U.S. Pension Plan at the end of fiscal years 2008 and 2007, and the target allocation rate for 2009, by asset category, are as follows:

| <u>Asset Category</u> | <u>Target Allocation</u> | <u>Percentage of Plan Assets</u> | |
|-----------------------------|--------------------------|----------------------------------|-------------|
| | | <u>2008</u> | <u>2007</u> |
| Equity securities | 10%–20% | 7.5% | 15.0% |
| Debt instruments | 80%–90% | 92.5% | 85.0% |

Non-U.S. Plan Assets

The investments of the non-U.S. plans are managed by insurance companies, third-party trustees, or pension funds, consistent with regulations or market practice of the country where the assets are invested. The investment manager makes investment decisions within the guidelines set by us or local regulations. The investment manager evaluates performance by comparing the actual rate of return to the return on other similar assets. Investments managed by qualified insurance companies or pension funds under standard contracts follow local regulations, and we are not actively involved in their investment strategies. In general, the investment strategy is designed to accumulate a diversified portfolio among markets, asset classes, or individual securities in order to reduce market risk and assure that the pension assets are available to pay benefits as they come due. The average expected long-term rate of return for the non-U.S. plan assets is 6.6%.

The asset allocation for our non-U.S. plans, excluding assets managed by qualified insurance companies, at the end of fiscal years 2008 and 2007, and the target allocation rate for 2009, by asset category, are as follows:

| <u>Asset Category</u> | <u>Target Allocation</u> | <u>Percentage of Plan Assets</u> | |
|-----------------------------|--------------------------|----------------------------------|-------------|
| | | <u>2008</u> | <u>2007</u> |
| Equity securities | 64.0% | 64.0% | 67.0% |
| Debt instruments | 12.0% | 12.0% | 8.0% |
| Other | 24.0% | 24.0% | 25.0% |

Investment assets managed by qualified insurance companies are invested as part of the insurance companies' general fund. We do not have control over the target allocation of those investments. Those investments made up 36% of total non-U.S. plan assets in 2008 (31% in 2007).

Funding Expectations

Under applicable law for the U.S. Pension Plan, we are not required to make any contributions during 2009. Our expected funding for the non-U.S. plans during 2009 is approximately \$62 million. We expect employer contributions to the postretirement medical benefits plan to be approximately \$5 million during 2009.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Estimated Future Benefit Payments

We expect the benefits to be paid through 2018 from the U.S. and non-U.S. pension plans and other postretirement benefit plans to be approximately \$75 million annually.

Note 18: Commitments

A portion of our capital equipment and certain facilities is under operating leases that expire at various dates through 2028. Additionally, portions of our land are under leases that expire at various dates through 2062. Rental expense was \$141 million in 2008 (\$154 million in 2007 and \$160 million in 2006).

Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year were as follows as of December 27, 2008 (in millions):

| <u>Year Payable</u> | |
|-------------------------------|---------------|
| 2009 | \$ 106 |
| 2010 | 75 |
| 2011 | 55 |
| 2012 | 44 |
| 2013 | 24 |
| 2014 and thereafter | 46 |
| Total | \$ 350 |

Commitments for construction or purchase of property, plant and equipment totaled \$2.9 billion as of December 27, 2008 (\$2.3 billion as of December 29, 2007). Other purchase obligations and commitments totaled \$1.2 billion as of December 27, 2008 (\$1.7 billion as of December 29, 2007). Other purchase obligations and commitments include payments due under various types of licenses, agreements to purchase raw material or other goods, as well as payments due under non-contingent funding obligations. Funding obligations include, for example, agreements to fund various projects with other companies. In addition, we have various contractual commitments with Micron, IMFT, and IMFS (see “Note 6: Equity Method and Cost Method Investments”).

Note 19: Employee Equity Incentive Plans

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

In May 2007, stockholders approved an extension of the 2006 Equity Incentive Plan (the 2006 Plan). Stockholders approved 119 million additional shares for issuance, increasing the total shares of common stock available for issuance as equity awards to employees and non-employee directors to 294 million shares. Of this amount, we increased the maximum number of shares to be awarded as non-vested shares (restricted stock) or non-vested share units (restricted stock units) to 168 million shares. The approval also extended the expiration date of the 2006 Plan to June 2010. The 2006 Plan allows for time-based, performance-based, and market-based vesting for equity incentive awards. As of December 27, 2008, we had not issued any performance-based or market-based equity incentive awards. As of December 27, 2008, 174 million shares remained available for future grant under the 2006 Plan. We may assume the equity incentive plans and the outstanding equity awards of certain acquired companies. Once they are assumed, we do not grant additional shares under these plans.

We began issuing restricted stock units in 2006. We issue shares on the date that the restricted stock units vest. The majority of shares issued are net of the statutory withholding requirements that we pay on behalf of our employees. As a result, the actual number of shares issued will be less than the number of restricted stock units granted. Prior to vesting, restricted stock units do not have dividend equivalent rights, do not have voting rights, and the shares underlying the restricted stock units are not considered issued and outstanding.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Equity awards granted to employees in 2008 under our equity incentive plans generally vest over 4 years from the date of grant, and options expire 7 years from the date of grant. Equity awards granted to key officers, senior-level employees, and key employees in 2008 may have delayed vesting beginning 2 to 5 years from the date of grant, and options expire 7 to 10 years from the date of grant.

The 2006 Stock Purchase Plan allows eligible employees to purchase shares of our common stock at 85% of the value of our common stock on specific dates. Under the 2006 Stock Purchase Plan, we made 240 million shares of common stock available for issuance through August 2011. As of December 27, 2008, 188 million shares were available for issuance under the 2006 Stock Purchase Plan.

Share-Based Compensation

Effective January 1, 2006, we adopted the provisions of SFAS No. 123(R), as discussed in "Note 2: Accounting Policies." Share-based compensation recognized in 2008 was \$851 million (\$952 million in 2007 and \$1,375 million in 2006).

In accordance with SFAS No. 123(R), we adjust share-based compensation on a quarterly basis for changes to our estimate of expected equity award forfeitures based on our review of recent forfeiture activity and expected future employee turnover. We recognize the effect of adjusting the forfeiture rate for all expense amortization after January 1, 2006 in the period that we change the forfeiture estimate. The effect of forfeiture adjustments in 2006, 2007, and 2008 was not significant.

The total share-based compensation cost capitalized as part of inventory as of December 27, 2008 was \$46 million (\$41 million as of December 29, 2007 and \$72 million as of December 30, 2006). During 2008, the tax benefit that we realized for the tax deduction from option exercises and other awards totaled \$147 million (\$265 million in 2007 and \$139 million in 2006).

We estimate the fair value of restricted stock unit awards using the value of our common stock on the date of grant, reduced by the present value of dividends expected to be paid on our common stock prior to vesting. We based the weighted average estimated values of restricted stock unit grants, as well as the weighted average assumptions that we used in calculating the fair value, on estimates at the date of grant, as follows:

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|-----------------------------------|-------------|-------------|-------------|
| Estimated values | \$ 19.94 | \$ 21.13 | \$ 18.70 |
| Risk-free interest rate | 2.1% | 4.7% | 4.9% |
| Dividend yield | 2.6% | 2.0% | 2.0% |

We use the Black-Scholes option pricing model to estimate the fair value of options granted under our equity incentive plans and rights to acquire common stock granted under our stock purchase plan. We based 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, on estimates at the date of grant, as follows:

| | <u>Stock Options</u> | | | <u>Stock Purchase Plan</u> | | |
|------------------------------------|----------------------|-------------|-------------|----------------------------|-------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
| Estimated values | \$ 5.74 | \$ 5.79 | \$ 5.21 | \$ 5.32 | \$ 5.18 | \$ 4.56 |
| Expected life (in years) | 5.0 | 5.0 | 4.9 | .5 | .5 | .5 |
| Risk-free interest rate | 3.0% | 4.5% | 4.9% | 2.1% | 5.2% | 5.0% |
| Volatility | 37% | 26% | 27% | 35% | 28% | 29% |
| Dividend yield | 2.7% | 2.0% | 2.0% | 2.5% | 2.0% | 2.1% |

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We base the expected volatility on implied volatility, because we have determined that implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. We use the simplified method of calculating expected life described in SAB 107, as amended by SAB 110, due to significant differences in the vesting terms and contractual life of current option grants compared to our historical grants.

Restricted Stock Unit Awards

Information with respect to outstanding restricted stock unit activity is as follows:

| <u>(In Millions, Except Per Share Amounts)</u> | <u>Number of Shares</u> | <u>Weighted Average Grant-Date Fair Value</u> | <u>Aggregate Fair Value¹</u> |
|---|-----------------------------|---|---|
| December 31, 2005 | — | — | |
| Granted | 30.0 | \$ 18.70 | |
| Vested | — | — | \$ — |
| Forfeited | <u>(2.6)</u> | \$ 18.58 | |
| December 30, 2006 | 27.4 | \$ 18.71 | |
| Granted | 32.8 | \$ 21.13 | |
| Vested ² | (5.9) | \$ 18.60 | \$ 131 |
| Forfeited | <u>(3.2)</u> | \$ 19.38 | |
| December 29, 2007 | 51.1 | \$ 20.24 | |
| Granted | 32.9 | \$ 19.94 | |
| Vested ² | (12.1) | \$ 19.75 | \$ 270 |
| Forfeited | <u>(4.6)</u> | \$ 20.12 | |
| December 27, 2008 | <u>67.3</u> | \$ 20.18 | |
| Expected to vest as of December 27, 2008³ | <u>60.5</u> | \$ 20.20 | |

¹ Represents the value of Intel common stock on the date that the restricted stock units vest. On the grant date, the fair value for these vested awards was \$239 million in 2008 and \$111 million in 2007.

² The number of restricted stock units vested includes shares that we withheld on behalf of employees to satisfy the statutory tax withholding requirements.

³ Restricted stock units that are expected to vest are net of estimated future forfeitures.

As of December 27, 2008, there was \$937 million in unrecognized compensation costs related to restricted stock units granted under our equity incentive plans. We expect to recognize those costs over a weighted average period of 1.4 years.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Option Awards

Options outstanding that have vested and are expected to vest as of December 27, 2008 are as follows:

| | Number of Shares (In Millions) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (In Years) | Aggregate Intrinsic Value ¹ (In Millions) |
|-------------------------------------|--------------------------------------|---------------------------------------|---|---|
| Vested | 517.0 | \$ 28.78 | 3.0 | \$ 5 |
| Expected to vest ² | 88.1 | \$ 21.88 | 4.9 | — |
| Total | 605.1 | \$ 27.77 | 3.3 | \$ 5 |

¹ Amounts represent the difference between the exercise price and \$14.18, the closing price of Intel common stock on December 27, 2008, as reported on The NASDAQ Global Select Market*, for all in-the-money options outstanding.

² Options outstanding that are expected to vest are net of estimated future option forfeitures.

Options with a fair value of \$459 million completed vesting during 2008. As of December 27, 2008, there was \$335 million in unrecognized compensation costs related to stock options granted under our equity incentive plans. We expect to recognize those costs over a weighted average period of 1.2 years.

Additional information with respect to stock option activity is as follows:

| (In Millions, Except Per Share Amounts) | Number of Shares | Weighted Average Exercise Price | Aggregate Intrinsic Value ¹ |
|---|---------------------|--|--|
| December 31, 2005 | 899.9 | \$ 26.71 | |
| Grants | 52.3 | \$ 20.04 | |
| Exercises | (47.3) | \$ 12.83 | \$ 364 |
| Cancellations and forfeitures | (65.4) | \$ 28.07 | |
| December 30, 2006 | 839.5 | \$ 26.98 | |
| Grants | 24.6 | \$ 22.63 | |
| Exercises | (132.8) | \$ 19.78 | \$ 552 |
| Cancellations and forfeitures | (65.4) | \$ 31.97 | |
| December 29, 2007 | 665.9 | \$ 27.76 | |
| Grants | 24.9 | \$ 20.81 | |
| Exercises | (33.6) | \$ 19.42 | \$ 101 |
| Cancellations and forfeitures | (42.8) | \$ 31.14 | |
| Expirations | (2.4) | \$ 22.84 | |
| December 27, 2008 | 612.0 | \$ 27.70 | |
| Options exercisable at: | | | |
| December 30, 2006 | 567.6 | \$ 28.66 | |
| December 29, 2007 | 528.2 | \$ 29.04 | |
| December 27, 2008 | 517.0 | \$ 28.78 | |

¹ Amounts represent the difference between the exercise price and the value of Intel common stock at the time of exercise.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information about options outstanding as of December 27, 2008:

| Range of Exercise Prices | Outstanding Options | | | Exercisable Options | |
|---------------------------|-----------------------------------|---|---------------------------------------|--------------------------------------|---------------------------------------|
| | Number of Shares (In Millions) | Weighted Average Remaining Contractual Life (In Years) | Weighted Average Exercise Price | Number of Shares (In Millions) | Weighted Average Exercise Price |
| \$0.05–\$15.00 | 0.6 | 3.4 | \$ 5.26 | 0.6 | \$ 5.26 |
| \$15.01–\$20.00 | 86.5 | 4.4 | \$ 18.37 | 64.7 | \$ 18.40 |
| \$20.01–\$25.00 | 274.5 | 3.6 | \$ 22.53 | 211.0 | \$ 22.67 |
| \$25.01–\$30.00 | 122.2 | 4.1 | \$ 27.23 | 116.2 | \$ 27.25 |
| \$30.01–\$35.00 | 48.9 | 1.7 | \$ 31.35 | 45.2 | \$ 31.33 |
| \$35.01–\$40.00 | 20.0 | 1.6 | \$ 38.43 | 20.0 | \$ 38.43 |
| \$40.01–\$72.88 | 59.3 | 1.4 | \$ 59.85 | 59.3 | \$ 59.85 |
| Total | 612.0 | 3.4 | \$ 27.70 | 517.0 | \$ 28.78 |

These options will expire if they are not exercised by specific dates through January 2018. Option exercise prices for options exercised during the three-year period ended December 27, 2008 ranged from \$0.05 to \$27.27.

Stock Purchase Plan

Approximately 72% of our employees were participating in our stock purchase plan as of December 27, 2008. Employees purchased 25.9 million shares in 2008 for \$453 million under the 2006 Stock Purchase Plan (26.1 million shares for \$428 million in 2007). Employees purchased 26.0 million shares in 2006 for \$436 million under the now expired 1976 Stock Participation Plan. As of December 27, 2008, there was \$18 million in unrecognized compensation costs related to rights to acquire common stock under our stock purchase plan. We expect to recognize those costs over a weighted average period of one month.

Note 20: Common Stock Repurchases

Common Stock Repurchase Program

We have an ongoing authorization, amended in November 2005, from our Board of Directors to repurchase up to \$25 billion in shares of our common stock in open market or negotiated transactions. During 2008, we repurchased 324 million shares of common stock at a cost of \$7.1 billion (111 million shares at a cost of \$2.75 billion during 2007 and 226 million shares at a cost of \$4.6 billion during 2006). We have repurchased and retired 3.3 billion shares at a cost of approximately \$67 billion since the program began in 1990. As of December 27, 2008, \$7.4 billion remained available for repurchase under the existing repurchase authorization. A portion of our purchases in 2008 and 2007 was executed under privately negotiated forward purchase agreements.

Restricted Stock Unit Withholdings

We issue restricted stock units as part of our equity incentive plans. For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the statutory withholding requirements that we pay on behalf of our employees. During 2008, we withheld 3.5 million shares (1.7 million shares during 2007) to satisfy \$78 million (\$38 million during 2007) of employees' tax obligations. Although shares withheld are not issued, they are treated as common stock repurchases for accounting and disclosure purposes, as they reduce the number of shares that would have been issued upon vesting.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 21: Earnings Per Share

We computed our basic and diluted earnings per common share as follows:

| <u>(In Millions, Except Per Share Amounts)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-----------------|-----------------|-----------------|
| Net income | \$ 5,292 | \$ 6,976 | \$ 5,044 |
| Weighted average common shares outstanding—basic | 5,663 | 5,816 | 5,797 |
| Dilutive effect of employee equity incentive plans | 34 | 69 | 32 |
| Dilutive effect of convertible debt | 51 | 51 | 51 |
| Weighted average common shares outstanding—diluted | 5,748 | 5,936 | 5,880 |
| Basic earnings per common share | \$ 0.93 | \$ 1.20 | \$ 0.87 |
| Diluted earnings per common share | \$ 0.92 | \$ 1.18 | \$ 0.86 |

We computed our basic earnings per common share using net income and the weighted average number of common shares outstanding during the period. We computed diluted earnings per common share 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 are determined by applying the treasury stock method to the assumed exercise of outstanding stock options, the assumed vesting of outstanding restricted stock units, and the assumed issuance of common stock under the stock purchase plan, and applying the if-converted method for the assumed conversion of debt.

For 2008, we excluded 484 million outstanding weighted average stock options (417 million in 2007 and 693 million in 2006) 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 the calculation in the future if the average market value of the common shares increases and is greater than the exercise price of these options.

Note 22: Comprehensive Income

The components of total comprehensive income were as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-----------------|-----------------|-----------------|
| Net income | \$ 5,292 | \$ 6,976 | \$ 5,044 |
| Other comprehensive income (loss) | (654) | 318 | 26 |
| Total comprehensive income | \$ 4,638 | \$ 7,294 | \$ 5,070 |

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of other comprehensive income (loss) and related tax effects were as follows:

| <u>(In Millions)</u> | 2008 | | | 2007 | | | 2006 | | |
|--|-------------------|---------------|-----------------|---------------|-----------------|---------------|---------------|----------------|---------------|
| | Before Tax | Tax | Net of Tax | Before Tax | Tax | Net of Tax | Before Tax | Tax | Net of Tax |
| Change in unrealized holding gain | | | | | | | | | |
| (loss) on investments | \$ (764) | \$ 279 | \$ (485) | \$ 420 | \$ (155) | \$ 265 | \$ 94 | \$ (33) | \$ 61 |
| Less: adjustment for (gain) loss on investments included in net income . . | 34 | (12) | 22 | (85) | 31 | (54) | (75) | 27 | (48) |
| Change in unrealized holding gain | | | | | | | | | |
| (loss) on derivatives | (23) | 8 | (15) | 80 | (21) | 59 | 59 | (22) | 37 |
| Less: adjustment for amortization of (gain) loss on derivatives included in net income | (58) | 21 | (37) | (55) | 16 | (39) | 9 | (3) | 6 |
| Change in prior service costs | 5 | (2) | 3 | 4 | (1) | 3 | — | — | — |
| Change in actuarial loss | (220) | 78 | (142) | 106 | (22) | 84 | — | — | — |
| Minimum pension liability | — | — | — | — | — | — | (36) | 6 | (30) |
| Total other comprehensive income | | | | | | | | | |
| (loss) | <u>\$ (1,026)</u> | <u>\$ 372</u> | <u>\$ (654)</u> | <u>\$ 470</u> | <u>\$ (152)</u> | <u>\$ 318</u> | <u>\$ 51</u> | <u>\$ (25)</u> | <u>\$ 26</u> |

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

| <u>(In Millions)</u> | 2008 | 2007 |
|--|------------------------|----------------------|
| Accumulated net unrealized holding gain (loss) on available-for-sale investments | \$ (139) | \$ 324 |
| Accumulated net unrealized holding gain on derivatives | 48 | 100 |
| Accumulated net prior service costs | (10) | (13) |
| Accumulated net actuarial losses | (290) | (148) |
| Accumulated transition obligation | (2) | (2) |
| Total accumulated other comprehensive income (loss) | <u>\$ (393)</u> | <u>\$ 261</u> |

For 2008, we reclassified \$37 million of net deferred holding gains on derivatives from accumulated other comprehensive income (loss) to cost of sales and operating expenses related to our non-U.S.-currency capital purchase and operating cost hedging programs (gains of \$39 million in 2007 and losses of \$6 million in 2006). We estimate that we will reclassify less than \$15 million of net derivative losses included in other accumulated comprehensive income (loss) into earnings within the next 12 months. For all periods presented, the portion of hedging instruments' gains or losses excluded from the assessment of effectiveness and the ineffective portions of hedges had an insignificant impact on earnings for cash flow hedges. Additionally, for all periods presented, there was not a significant impact on results of operations from discontinued cash flow hedges as a result of forecasted transactions that did not occur.

The estimated net prior service cost, actuarial loss, and transition obligation for the defined benefit plan that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during fiscal year 2009 are \$4 million, \$28 million, and zero, respectively.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 23: Taxes

Income before taxes and the provision for taxes consisted of the following:

| <u>(Dollars in Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|------------------------|------------------------|------------------------|
| Income before taxes: | | | |
| U.S. | \$ 6,117 | \$ 6,520 | \$ 4,532 |
| Non-U.S. | 1,569 | 2,646 | 2,536 |
| Total income before taxes | <u>\$ 7,686</u> | <u>\$ 9,166</u> | <u>\$ 7,068</u> |
| Provision for taxes: | | | |
| Current: | | | |
| Federal | \$ 2,781 | \$ 1,865 | \$ 1,997 |
| State | (38) | 111 | 15 |
| Non-U.S. | 345 | 445 | 337 |
| | <u>3,088</u> | <u>2,421</u> | <u>2,349</u> |
| Deferred: | | | |
| Federal | (668) | (140) | (305) |
| Other | (26) | (91) | (20) |
| | <u>(694)</u> | <u>(231)</u> | <u>(325)</u> |
| Total provision for taxes | <u>\$ 2,394</u> | <u>\$ 2,190</u> | <u>\$ 2,024</u> |
| Effective tax rate | <u>31.1%</u> | <u>23.9%</u> | <u>28.6%</u> |

The difference between the tax provision at the statutory federal income tax rate and the tax provision as a percentage of income before income taxes was as follows:

| <u>(In Percentages)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|--|---------------------|---------------------|---------------------|
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| Increase (reduction) in rate resulting from: | | | |
| Non-U.S. income taxed at different rates | (4.2) | (4.7) | (4.3) |
| Settlements | (0.5) | (5.3) | — |
| Research and development tax credits | (1.4) | (1.3) | (0.8) |
| Domestic manufacturing deduction benefit | (1.7) | (1.1) | (0.9) |
| Deferred tax asset valuation allowance—unrealized losses | 3.4 | — | — |
| Export sales benefit | — | — | (2.1) |
| Other | 0.5 | 1.3 | 1.7 |
| Income tax rate | <u>31.1%</u> | <u>23.9%</u> | <u>28.6%</u> |

During 2008, income tax benefits attributable to equity-based compensation transactions that were allocated to stockholders' equity totaled \$8 million (\$123 million in 2007 and \$126 million in 2006).

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of our deferred tax assets and liabilities at fiscal year-ends were as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> |
|---|-----------------|-------------------|
| Deferred tax assets | | |
| Accrued compensation and other benefits | \$ 529 | \$ 472 |
| Deferred income | 160 | 222 |
| Share-based compensation | 669 | 542 |
| Inventory | 602 | 438 |
| Unrealized losses on equity investments and derivatives | 762 | 116 |
| State credits and net operating losses | 138 | 133 |
| Investment in foreign subsidiaries | 50 | 32 |
| Other, net | 337 | 326 |
| | <u>3,247</u> | <u>2,281</u> |
| Valuation allowance | (358) | (133) |
| Total deferred tax assets | <u>\$ 2,889</u> | <u>\$ 2,148</u> |
| Deferred tax liabilities | | |
| Property, plant and equipment | \$ (507) | \$ (609) |
| Licenses and intangibles | (54) | (137) |
| Unrealized gains on investments and derivatives | — | (227) |
| Other, net | (207) | (119) |
| Total deferred tax liabilities | <u>\$ (768)</u> | <u>\$ (1,092)</u> |
| Net deferred tax assets. | <u>\$ 2,121</u> | <u>\$ 1,056</u> |
| Reported as: | | |
| Current deferred tax assets | \$ 1,390 | \$ 1,186 |
| Non-current deferred tax assets ¹ | 777 | 281 |
| Non-current deferred tax liabilities | (46) | (411) |
| Net deferred taxes | <u>\$ 2,121</u> | <u>\$ 1,056</u> |

¹ Included within other long-term assets on the consolidated balance sheets.

We had state tax credits of \$158 million as of December 27, 2008 that will expire between 2009 and 2019. The net deferred tax asset valuation allowance was \$358 million as of December 27, 2008 compared to \$133 million as of December 29, 2007. The valuation allowance is based on our assessment that it is more likely than not that certain deferred tax assets will not be realized in the foreseeable future. \$258 million of the valuation allowance as of December 27, 2008 was related to investment asset impairments, and the remaining \$100 million of the valuation allowance was related to unrealized state credit carry forwards.

As of December 27, 2008, U.S. deferred income taxes have not been provided for on a cumulative total of approximately \$7.5 billion of undistributed earnings for certain non-U.S. subsidiaries. Determination of the amount of unrecognized deferred tax liability for temporary differences related to investments in these non-U.S. subsidiaries that are essentially permanent in duration is not practicable. We currently intend to reinvest those earnings in operations outside the U.S.

Effective at the beginning of the first quarter of 2007, we adopted the provisions of FIN 48. As a result of the implementation of FIN 48, we 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.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-term income taxes payable include uncertain tax positions, reduced by the associated federal deduction for state taxes and non-U.S. tax credits, and may also include other long-term tax liabilities that are not uncertain but have not yet been paid.

The aggregate changes in the balance of gross unrecognized tax benefits were as follows:

(In Millions)

| | |
|---|-----------------|
| Beginning balance as of December 31, 2006 (date of adoption) | \$ 1,896 |
| Settlements and effective settlements with tax authorities and related remeasurements | (1,243) |
| Lapse of statute of limitations | — |
| Increases in balances related to tax positions taken during prior periods | 106 |
| Decreases in balances related to tax positions taken during prior periods | (26) |
| Increases in balances related to tax positions taken during current period | <u>61</u> |
| December 29, 2007 | \$ 794 |
| Settlements and effective settlements with tax authorities and related remeasurements | (51) |
| Lapse of statute of limitations | — |
| Increases in balances related to tax positions taken during prior periods | 72 |
| Decreases in balances related to tax positions taken during prior periods | (187) |
| Increases in balances related to tax positions taken during current period | <u>116</u> |
| December 27, 2008 | \$ 744 |

During 2007, the U.S. Internal Revenue Service (IRS) closed its examination of our tax returns for the years 1999 through 2002, resolving issues related to the tax benefits for export sales as well as a number of other issues. Additionally, we reached a settlement with the IRS for years 2003 through 2005 with respect to the tax benefits for export sales. In connection with the \$739 million settlement with the IRS, we reversed long-term income taxes payable, which resulted in a \$276 million tax benefit in 2007.

Also during 2007, we effectively settled with the IRS on several other matters related to the audit for the 2003 and 2004 tax years, despite the fact that the IRS audit for those years remains open. The result of effectively settling those positions and the process of re-evaluating, based on all available information and certain required remeasurements, was a reduction of \$389 million in the balance of our gross unrecognized tax benefits, \$155 million of which resulted in a tax benefit in 2007.

If the remaining balance of \$744 million of unrecognized tax benefits as of December 27, 2008 (\$794 million as of December 29, 2007) were realized in a future period, it would result in a tax benefit of \$590 million and a reduction of the effective tax rate (\$661 million as of December 29, 2007).

During all years presented, we recognized interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated statements of income. Therefore, no change was necessary upon adoption of FIN 48. In 2008, we recognized \$6 million in interest and penalties. In 2007, we recognized a net benefit of \$142 million, primarily due to the reversal of accrued interest and penalties related to the settlement activity described above. As of December 27, 2008, we had \$153 million of accrued interest and penalties related to unrecognized tax benefits (\$115 million as of December 29, 2007).

During 2008, we reached a settlement with the IRS and several state tax authorities related to prior years resulting in payments of \$51 million and a decrease in balances related to tax positions taken during prior periods of \$103 million.

Although the timing of the resolution and/or closure on audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. Given the number of years remaining subject to examination and the number of matters being examined, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits. However, we can reasonably expect a minimum reduction of \$80 million of our existing gross unrealized tax benefits upon settlement or effective settlement with the various tax authorities, the closure of certain audits, and the lapse of statute of limitations.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We file U.S. federal, U.S. state, and non-U.S. tax returns. For U.S. state and non-U.S. tax returns, we are generally no longer subject to tax examinations for years prior to 1996. For U.S. federal tax returns, we are no longer subject to tax examination for years prior to 2003.

Note 24: Contingencies

Legal Proceedings

We are 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, legal proceedings are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include money damages or, in matters for which injunctive relief or other conduct remedies are sought, an injunction prohibiting us from selling one or more products at all or in particular ways. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on our business, results of operation, financial position, and overall trends. Except as may be otherwise indicated, the outcomes in these matters are not reasonably estimable.

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

A number of proceedings, described below, generally challenge certain of our competitive practices, contending generally that we improperly condition price rebates and other discounts on our microprocessors on exclusive or near exclusive dealing by some of our customers. We believe that we compete lawfully and that our marketing practices benefit our customers and our stockholders, and we will continue to vigorously defend ourselves. The distractions caused by challenges to our business practices, however, are undesirable, and the legal and other costs associated with defending our position have been and continue to be significant. We assume, as should investors, that these challenges could continue for a number of years and may require the investment of substantial additional management time and substantial financial resources to explain and defend our position. 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, these litigation matters and the related government investigations are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include substantial money damages and, in matters in which injunctive relief or other conduct remedies are sought, an injunction or other order prohibiting us from selling one or more products at all or in particular ways. Were unfavorable final outcomes to occur, our business, results of operation, financial position, and overall trends could be materially harmed.

In June 2005, AMD filed a complaint in the United States District Court for the District of Delaware alleging that we and our Japanese subsidiary engaged in various actions in violation of the Sherman Act and the California Business and Professions Code, including, among other things, providing discounts and rebates to our manufacturer and distributor customers conditioned on exclusive or near exclusive dealing that allegedly unfairly interfered with AMD's ability to sell its microprocessors, interfering with certain AMD product launches, and interfering with AMD's participation in certain industry standards-setting groups. AMD's complaint seeks unspecified treble damages, punitive damages, an injunction requiring Intel to cease any conduct found to be unlawful, and attorneys' fees and costs. We have answered the complaint, denying the material allegations and asserting various affirmative defenses. The discovery cut-off of the AMD litigation is set for May 1, 2009. In February 2007, we reported to the Court that we had discovered certain lapses in our retention of electronic documents. We then stipulated to a court order requiring us to further investigate and report on those lapses, as well as develop a plan to remediate the issues. We completed the investigation and provided detailed information to the Court and AMD throughout 2007 and 2008. The Court also approved our remediation plan, which is now almost completed. The Court granted our request for an order to permit discovery against AMD in order to investigate its retention practices, including potential lapses in AMD's retention of electronic documents. The parties have largely completed document discovery and are in the process of taking depositions of current and former employees and of third parties. The AMD litigation currently is scheduled for trial to commence on February 15, 2010.

AMD's Japanese subsidiary also filed suits in the Tokyo High Court and the Tokyo District Court against our Japanese subsidiary, asserting violations of Japan's Antimonopoly Law and alleging damages in each suit of approximately \$55 million, plus various other costs and fees. Proceedings in those matters are ongoing.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition, at least 82 separate class actions have been filed in the U.S. District Courts for the Northern District of California, Southern District of California, District of Idaho, District of Nebraska, District of New Mexico, District of Maine, and District of Delaware, as well as in various California, Kansas, and Tennessee state courts. These actions generally repeat AMD's allegations and assert various consumer injuries, including that consumers in various states have been injured by paying higher prices for computers containing our microprocessors. All of the federal class actions and the Kansas and Tennessee state court class actions have been or will be consolidated by the Multidistrict Litigation Panel to the District of Delaware and are being coordinated for pre-trial purposes with the AMD litigation. The putative class in the coordinated actions has moved for class certification, which we are in the process of opposing. All California class actions have been consolidated to the Superior Court of California in Santa Clara County. The plaintiffs in the California actions have moved for class certification, which we are in the process of opposing. At our request, the Court in the California actions has agreed to delay ruling on this motion until after the Delaware Federal Court rules on the similar motion in the coordinated actions.

We dispute AMD's claims and the class-action claims, and intend to defend the lawsuits vigorously.

We are also subject to certain antitrust regulatory inquiries. In 2001, the European Commission (EC) commenced an investigation regarding claims by AMD that we used unfair business practices to persuade clients to buy our microprocessors. The EC sent us a Statement of Objections (SO) in July 2007 alleging that certain Intel marketing and pricing practices amounted to an abuse of a dominant position that infringed European law. The SO recognized that such allegations are preliminary, not final, conclusions. We responded to those allegations in January 2008, and a hearing was held in March 2008. In February 2008, the EC initiated an inspection of documents at our Feldkirchen, Germany offices. We also received additional requests for information from the EC. On July 17, 2008, the EC sent us a Supplementary Statement of Objections (SSO) alleging that certain Intel marketing and pricing practices amounted to an abuse of a dominant position that infringed European law. The SSO recognizes that such allegations are preliminary, not final, conclusions.

In October 2008, we filed an appeal with the Court of First Instance (CFI) in Europe related to procedural rulings of the EC concerning Intel's response to the SSO. In the appeal, we asked the CFI to overrule EC decisions that limit the evidence available to Intel and that we believe will hinder Intel's ability to conduct a fair and effective defense against the allegations contained in the SSO. On January 27, 2009, the CFI rejected Intel's appeal, ruling that Intel's requests were inadmissible and would not be considered by the Court at this time. Intel filed a response to the SSO on February 5, 2009.

On December 19, 2008, Intel received a "Letter of Fact" from the EC, which included additional evidentiary material related to the original SO that the EC provided to Intel as a "courtesy" and not because of any "obligation" to do so. In addition, the EC stated that "it cannot be excluded at this stage of the procedure that the [EC] may adopt a decision" adverse to Intel pursuant to Article 7 of the Council Regulation on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty. The EC's letter outlined certain alleged evidence that the EC may rely on in reaching any such decision.

With respect to both the SO and the SSO, the options available to the EC include taking no action, imposing a monetary fine, and/or ordering Intel to modify or terminate certain marketing and pricing practices. The EC's rules provide that the maximum monetary fine could equal 10% of Intel's global turnover for all products and services for the prior fiscal year. Any such decision would be subject to appeal. Intel lacks sufficient information to predict the EC's future course of action, and both the outcome and the range of any potential actions by the EC are not reasonably estimable.

In June 2005, we received an inquiry from the Korea Fair Trade Commission (KFTC) requesting documents from our Korean subsidiary related to marketing and rebate programs that we entered into with Korean PC manufacturers. In February 2006, the KFTC initiated an inspection of documents at our offices in Korea. In September 2007, the KFTC served us an Examination Report alleging that sales to two customers during parts of 2002–2005 violated Korea's Monopoly Regulation and Fair Trade Act. In December 2007, we submitted our written response to the KFTC. In February 2008, the KFTC's examiner submitted a written reply to our response. In March, we submitted a further response. In April, we participated in a pre-hearing conference before the KFTC, and we participated in formal hearings in May and June 2008. In June 2008, the KFTC announced its intent to fine us approximately \$25 million for providing discounts to Samsung Electronics Co., Ltd. and TriGem Computer Inc. On November 7, 2008, the KFTC issued a final written decision concluding that Intel's discounts had violated Korean antitrust law and imposing a fine on Intel of approximately \$20 million, which Intel paid in January 2009. On December 9, 2008, Intel appealed this decision by filing a lawsuit in the Seoul High Court seeking to overturn the KFTC's decision. That lawsuit is pending.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In January 2008, we received a subpoena from the Attorney General of the State of New York requesting documents and information to assist in its investigation of whether there have been any agreements or arrangements establishing or maintaining a monopoly in the sale of microprocessors in violation of federal or New York antitrust laws. We continue to cooperate and provide requested information in connection with this investigation.

In June 2008, the U.S. Federal Trade Commission announced a formal investigation into our sales practices. We continue to cooperate and provide requested information in connection with this investigation.

We dispute any claims made in these investigations that Intel has acted unlawfully. We intend to cooperate with and respond to these investigations as appropriate, and we expect that these matters will be acceptably resolved.

Intel Corporation v. Commonwealth Scientific and Industrial Research Organisation (CSIRO)

In May 2005, Intel filed a lawsuit in the United States District Court for the Northern District of California against CSIRO, an Australian research institute. CSIRO had sent letters to Intel customers claiming that products compliant with the IEEE 802.11a and 802.11g standards infringe CSIRO's U.S. Patent No. 5,487,069 (the '069 patent). Intel's lawsuit seeks a declaration that the CSIRO patent is invalid and that no Intel product infringes it. Dell Inc. is a co-declaratory judgment plaintiff with Intel; Microsoft Corporation, Netgear Inc., and Hewlett-Packard Company filed a similar, separate lawsuit against CSIRO. In its amended answer, CSIRO claimed that various Intel products that practice the IEEE 802.11a, 802.11g, and/or draft 802.11n standards infringe the '069 patent. Trial is set for April 13, 2009. CSIRO's complaint seeks, among other remedies, injunctive relief and damages. CSIRO has stated in pre-trial proceedings that it intends to seek damages in the form of a royalty for alleged infringement in an amount that, if CSIRO prevailed on its claims against all defendants, could result in a judgment against Intel in excess of \$400 million. In a separate lawsuit (in which Intel is not involved) against a third-party vendor of wireless networking products based on the same patent at issue in the Intel litigation, pending in the United States District Court for the Eastern District of Texas, the Court granted CSIRO's motions for summary judgment on the issues of validity and infringement, and granted a permanent injunction in favor of CSIRO. In September 2008, the United States Court of Appeals for the Federal Circuit affirmed in part and reversed in part that ruling, concluding that the patent was infringed by the third-parties' products, but that the District Court erred in concluding, as a matter of law, that the patent is valid. Intel disputes CSIRO's claims and intends to defend the lawsuit vigorously.

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

In June 2002, various plaintiffs filed a lawsuit in the Third Judicial Circuit Court, Madison County, Illinois, against Intel, Gateway Inc., Hewlett-Packard Company, and HPDirect, Inc. alleging 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 us an Illinois-only class of certain end-use purchasers of certain Pentium 4 processors or computers containing these microprocessors. In January 2005, the Court granted a motion filed jointly by the plaintiffs and Intel that stayed the proceedings in the trial court pending discretionary appellate review of the Court's class certification order. In July 2006, the Illinois Appellate Court, Fifth District, vacated the trial court's class certification order. The Appellate Court instructed the trial court to reconsider whether California law should apply. However, in August 2006, the Illinois Supreme Court agreed to review the Appellate Court's decision. In November 2007, the Illinois Supreme Court issued its opinion finding in favor of Intel on two issues. First, on the issue of whether Illinois or California law applies to the claims of Illinois residents for goods purchased in Illinois, the Court found that Illinois law applies, rejecting the Appellate Court's finding of a nationwide class based on application of the California law. Second, on the issue of whether any class should be certified in this case at all, the Court held that no class should be certified, reversing the trial court's finding of an Illinois-only class based on Illinois law. The case was remanded to the trial court, and in March 2008 an order was entered dismissing the case with prejudice based on our motion to dismiss.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Frank T. Shum v. Intel Corporation, Jean-Marc Verdiell and LightLogic, Inc.

Intel acquired LightLogic, Inc. in May 2001. Frank Shum has sued Intel, LightLogic, and LightLogic's founder, Jean-Marc Verdiell, claiming that much of LightLogic's intellectual property is based on alleged inventions that Shum conceived while he and Verdiell were partners at Radiance Design, Inc. Shum has alleged claims for fraud, breach of fiduciary duty, fraudulent concealment, and breach of contract. Shum also seeks alleged correction of inventorship of seven patents acquired by Intel as part of the LightLogic acquisition. In January 2005, the U.S. District Court for the Northern District of California denied Shum's inventorship claim, and thereafter granted Intel's motion for summary judgment on Shum's remaining claims. In August 2007, the United States Court of Appeals for the Federal Circuit vacated the District Court's rulings and remanded the case for further proceedings. In October 2008, the District Court granted Intel's motion for summary judgment on Shum's claims for breach of fiduciary duty and fraudulent concealment, but denied Intel's motion on Shum's remaining claims. A jury trial on Shum's remaining claims took place in November and December 2008. In pre-trial proceedings and at trial, Shum requested monetary damages against the defendants in amounts ranging from \$31 million to \$931 million, and his final request to the jury was for as much as \$175 million. Following deliberations, the jury was unable to reach a verdict on most of the claims. With respect to Shum's claim that he is the proper inventor on certain LightLogic patents now assigned to Intel, the jury agreed with Shum on some of those claims. But the jury was unable to reach a verdict on the breach of contract, fraud, or unjust enrichment claims. All parties have filed post-trial motions, which the Court is currently considering. Intel disputes Shum's claims and intends to defend the lawsuit vigorously.

Martin Smilow v. Craig R. Barrett et al. & Intel Corporation; Christine Del Gaizo v. Paul S. Otellini et al. & Intel Corporation

In February 2008, Martin Smilow, an Intel stockholder, filed a putative derivative action in the United States District Court for the District of Delaware against members of our Board of Directors. The complaint alleges generally that the Board allowed the company to violate antitrust and other laws, as described in AMD's antitrust lawsuits against us, and that those Board-sanctioned activities have harmed the company. The complaint repeats many of AMD's allegations and references various investigations by the European Community, Korean Fair Trade Commission, and others. In February 2008, a second plaintiff, Evan Tobias, filed a derivative suit in the same court against the Board containing many of the same allegations as in the Smilow suit. On July 30, 2008, the District Court entered an order directing Smilow and Tobias to file a single, consolidated complaint by August 7, 2008 and directing us to respond within 30 days thereafter. An amended consolidated complaint was filed on August 7, 2008. On June 27, 2008, a third plaintiff, Christine Del Gaizo, filed a derivative suit in the Santa Clara County Superior Court against the Board, a former director of the Board, and six of our officers, containing many of the same allegations as in the Smilow and Tobias suits. On August 27, 2008, the parties in the California derivative suit entered into a stipulation to stay the action pending further order of the Court, and the Court entered an order to that effect on September 2, 2008. We deny the allegations and intend to defend the lawsuits vigorously. On September 5, 2008, all of the defendants in the Delaware derivative action filed a motion to dismiss the complaint. Briefing on the defendants' motion is complete and a ruling is expected in early 2009.

Note 25: Operating Segment and Geographic Information

As of December 27, 2008, our operating segments included the Digital Enterprise Group, Mobility Group, NAND Solutions Group, Digital Home Group, Digital Health Group, and Software and Services Group.

In the second quarter of 2008, we completed a reorganization that transferred the revenue and costs associated with a portion of the Digital Home Group's consumer PC components business to the Digital Enterprise Group. The Digital Home Group now focuses on the consumer electronics components business. We adjusted our historical results to reflect this reorganization. Prior-period amounts have also been adjusted retrospectively to reflect other minor reorganizations.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 our President and CEO. 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.

We report the financial results of the following operating segments:

- *Digital Enterprise Group.* Includes microprocessors and related chipsets and motherboards designed for the desktop (including high-end enthusiast PCs), nettop, and enterprise computing market segments; microprocessors and related chipsets for embedded applications; communications infrastructure components such as network processors and communications boards; wired connectivity devices; and products for network and server storage.
- *Mobility Group.* Includes microprocessors and related chipsets designed for the notebook and netbook market segments, wireless connectivity products, and products designed for the ultra-mobile market segment, which includes mobile Internet devices. In the fourth quarter of 2006, we completed the sale of certain assets of our communications and application processor business lines to Marvell. Related to the sale, we entered into a manufacturing and transition services agreement with Marvell. As a result, our sales of application and cellular baseband processors in 2007 and 2008 were only to Marvell.

The NAND Solutions Group, Digital Home Group, Digital Health Group, and Software and Services Group operating segments do not meet the quantitative thresholds for reportable segments as defined by SFAS No. 131 and are included within the all other category.

We have 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, we started including share-based compensation in the computation of operating income (loss) for each operating segment and adjusted prior results to reflect this change. Revenue for the all other category is primarily related to the sale of NAND flash memory products, microprocessors and related chipsets by the Digital Home Group, and NOR flash memory products. In the second quarter of 2008, we completed the divestiture of our NOR flash memory assets to Numonyx. At that time, we entered into supply and service agreements to provide products, services, and support to Numonyx following the close of the transaction. Revenue and expenses related to the supply and service agreements are included in the all other category. For further information on Numonyx, see "Note 6: Equity Method and Cost Method Investments."

The all other category includes certain corporate-level operating expenses and charges. These expenses and charges include:

- a portion of profit-dependent bonuses and other expenses not allocated to the operating segments;
- results of operations of seed businesses that support our 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.

With the exception of goodwill, we do not identify or allocate assets by operating segment, nor does the CODM evaluate operating segments using discrete asset information. Operating segments do not record inter-segment revenue, and, accordingly, there is none to be reported. We do not allocate gains and losses from equity investments, interest and other income, 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.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating segment net revenue and operating income (loss) for the three years ended December 27, 2008 were as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|------------------|------------------|------------------|
| Net revenue | | | |
| Digital Enterprise Group | | | |
| Microprocessor revenue | \$ 16,078 | \$ 15,945 | \$ 15,248 |
| Chipset, motherboard, and other revenue | 4,554 | 5,359 | 5,437 |
| | <u>20,632</u> | <u>21,304</u> | <u>20,685</u> |
| Mobility Group | | | |
| Microprocessor revenue | 11,439 | 10,660 | 9,212 |
| Chipset and other revenue | 4,209 | 4,021 | 3,097 |
| | <u>15,648</u> | <u>14,681</u> | <u>12,309</u> |
| All other | <u>1,306</u> | <u>2,349</u> | <u>2,388</u> |
| Total net revenue | <u>\$ 37,586</u> | <u>\$ 38,334</u> | <u>\$ 35,382</u> |
| Operating income (loss) | | | |
| Digital Enterprise Group | \$ 6,462 | \$ 5,295 | \$ 3,299 |
| Mobility Group | 5,199 | 5,611 | 4,602 |
| All other | (2,707) | (2,690) | (2,249) |
| Total operating income | <u>\$ 8,954</u> | <u>\$ 8,216</u> | <u>\$ 5,652</u> |

In 2008, one customer accounted for 20% of our net revenue (17% in 2007 and 16% in 2006), while another customer accounted for 18% of our net revenue (18% in 2007 and 19% in 2006). The majority of the revenue from these customers was from the sale of microprocessors, chipsets, and other components by the Digital Enterprise Group and Mobility Group operating segments.

Geographic revenue information for the three years ended December 27, 2008 is based on the location of the customer. Revenue from unaffiliated customers was as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|------------------|------------------|------------------|
| Asia-Pacific (geographic region/country) | | | |
| Taiwan | \$ 9,868 | \$ 8,606 | \$ 7,200 |
| China (including Hong Kong) | 4,974 | 5,295 | 4,969 |
| Other Asia-Pacific | 4,202 | 5,531 | 5,308 |
| | <u>19,044</u> | <u>19,432</u> | <u>17,477</u> |
| Americas (geographic region/country) | | | |
| United States | 5,462 | 6,015 | 5,486 |
| Other Americas | 1,981 | 1,700 | 2,026 |
| | <u>7,443</u> | <u>7,715</u> | <u>7,512</u> |
| Europe | <u>7,116</u> | <u>7,262</u> | <u>6,587</u> |
| Japan | <u>3,983</u> | <u>3,925</u> | <u>3,806</u> |
| Total net revenue | <u>\$ 37,586</u> | <u>\$ 38,334</u> | <u>\$ 35,382</u> |

Revenue from unaffiliated customers outside the U.S. totaled \$32,124 million in 2008 (\$32,319 million in 2007 and \$29,896 million in 2006).

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net property, plant and equipment by country was as follows:

| <u>(In Millions)</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-------------------------|-------------------------|-------------------------|
| United States | \$ 11,224 | \$ 10,647 | \$ 11,558 |
| Israel | 2,965 | 2,473 | 1,183 |
| Ireland | 1,536 | 2,076 | 2,860 |
| Other countries | 1,819 | 1,722 | 2,001 |
| Total property, plant and equipment, net | <u>\$ 17,544</u> | <u>\$ 16,918</u> | <u>\$ 17,602</u> |

Net property, plant and equipment outside the U.S. totaled \$6,320 million in 2008 (\$6,271 million in 2007 and \$6,044 million in 2006).

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders, Intel Corporation

We have audited the accompanying consolidated balance sheets of Intel Corporation as of December 27, 2008 and December 29, 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 27, 2008. Our audits also included the financial statement schedule listed in the Index at Part IV, Item 15. These financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intel Corporation at December 27, 2008 and December 29, 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 27, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 2 and 23 to the consolidated financial statements, Intel Corporation changed its method of accounting for sabbatical leave as of December 31, 2006, its method of accounting for uncertain tax positions as of December 31, 2006, and its method of accounting for its defined benefit pension and other postretirement plans during 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Intel Corporation's internal control over financial reporting as of December 27, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2009 expressed an unqualified opinion thereon.

Ernst + Young LLP

San Jose, California
February 17, 2009

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders, Intel Corporation

We have audited Intel Corporation's internal control over financial reporting as of December 27, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Intel Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Intel Corporation maintained, in all material respects, effective internal control over financial reporting as of December 27, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2008 consolidated financial statements of Intel Corporation and our report dated February 17, 2009 expressed an unqualified opinion thereon.

Ernst + Young LLP

San Jose, California
February 17, 2009

INTEL CORPORATION
FINANCIAL INFORMATION BY QUARTER (UNAUDITED)

| 2008 For Quarter Ended (In Millions, Except Per Share Amounts) | December 27 | September 27 | June 28 | March 29 |
|---|----------------------|---------------------|-----------------------|-----------------------|
| Net revenue | \$ 8,226 | \$ 10,217 | \$ 9,470 | \$ 9,673 |
| Gross margin | \$ 4,369 | \$ 6,019 | \$ 5,249 | \$ 5,207 |
| Net income | \$ 234 ¹ | \$ 2,014 | \$ 1,601 | \$ 1,443 |
| Basic earnings per common share | \$ 0.04 ¹ | \$ 0.36 | \$ 0.28 | \$ 0.25 |
| Diluted earnings per common share | \$ 0.04 ¹ | \$ 0.35 | \$ 0.28 | \$ 0.25 |
| Dividends per share | | | | |
| Declared | \$ — | \$ 0.28 | \$ — | \$ 0.2675 |
| Paid | \$ 0.14 | \$ 0.14 | \$ 0.14 | \$ 0.1275 |
| Market price range common stock ² | | | | |
| High | \$ 18.73 | \$ 24.52 | \$ 25.00 | \$ 26.66 |
| Low | \$ 12.23 | \$ 18.50 | \$ 20.69 | \$ 18.63 |
| | | | | |
| 2007 For Quarter Ended (In Millions, Except Per Share Amounts) | December 29 | September 29 | June 30 | March 31 |
| Net revenue | \$ 10,712 | \$ 10,090 | \$ 8,680 | \$ 8,852 |
| Gross margin | \$ 6,226 | \$ 5,171 | \$ 4,075 | \$ 4,432 |
| Net income | \$ 2,271 | \$ 1,791 | \$ 1,278 ³ | \$ 1,636 ³ |
| Basic earnings per common share | \$ 0.39 | \$ 0.31 | \$ 0.22 ³ | \$ 0.28 ³ |
| Diluted earnings per common share | \$ 0.38 | \$ 0.30 | \$ 0.22 ³ | \$ 0.28 ³ |
| Dividends per share | | | | |
| Declared | \$ — | \$ 0.225 | \$ — | \$ 0.225 |
| Paid | \$ 0.1125 | \$ 0.1125 | \$ 0.1125 | \$ 0.1125 |
| Market price range common stock ² | | | | |
| High | \$ 27.98 | \$ 26.33 | \$ 24.29 | \$ 22.30 |
| Low | \$ 24.37 | \$ 23.10 | \$ 19.13 | \$ 18.86 |

¹ During the fourth quarter of 2008, we recorded a total of \$938 million in impairment charges related to our Clearwire investments. \$762 million was related to our investment in Clearwire LLC and \$176 million was related to our investment in the new Clearwire Corporation. For further information, see “Note 6: Equity Method and Cost Method Investments” and “Note 5: Available-for-Sale Investments,” respectively, in the Notes to Consolidated Financial Statements of this Form 10-K.

² Intel’s common stock (symbol INTC) trades on The NASDAQ Global Select Market* and is quoted in the Wall Street Journal and other newspapers. Intel’s common stock also trades on The Swiss Exchange. As of December 27, 2008, there were approximately 180,000 registered holders of common stock. All stock prices are closing prices per The NASDAQ Global Select Market.

³ In connection with IRS settlements reached in 2007, we recorded a \$326 million tax benefit (including \$50 million of accrued interest) in the first quarter of 2007 and a \$155 million tax benefit in the second quarter of 2007. For further information, see “Note 23: Taxes” in the Notes to Consolidated Financial Statements of this Form 10-K. We did not have any significant settlements and related tax benefits in the third and fourth quarters of 2007.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: See “Index to Consolidated Financial Statements” in Part II, Item 8 of this Form 10-K.
2. Financial Statement Schedule: See “Schedule II—Valuation and Qualifying Accounts” in this section of this Form 10-K.
3. Exhibits: The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Form 10-K.

Certain of the agreements filed as exhibits to this Form 10-K contain representations and warranties by the parties to the agreements that have been made solely for the benefit of the parties to the agreement. These representations and warranties:

- may have been qualified by disclosures that were made to the other parties in connection with the negotiation of the agreements, which disclosures are not necessarily reflected in the agreements;
- may apply standards of materiality that differ from those of a reasonable investor; and
- were made only as of specified dates contained in the agreements and are subject to later developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time, and investors should not rely on them as statements of fact.

Intel, Intel logo, Intel Inside, Intel Atom, Celeron, Intel Centrino, Intel Core, Intel vPro, Intel Xeon, Itanium, and Pentium are trademarks of Intel Corporation in the U.S. and other countries.

** Other names and brands may be claimed as the property of others.*

INTEL CORPORATION
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

December 27, 2008, December 29, 2007, and December 30, 2006
(In Millions)

| | <u>Balance at Beginning of Year</u> | <u>Additions Charged (Credited) to Expenses</u> | <u>Net (Deductions) Recoveries</u> | <u>Balance at End of Year</u> |
|---|---|---|--|-----------------------------------|
| Allowance for doubtful receivables ¹ | | | | |
| 2008 | \$ 27 | \$ (4) | \$ (6) | \$ 17 |
| 2007 | \$ 32 | \$ (6) | \$ 1 | \$ 27 |
| 2006 | \$ 64 | \$ (19) | \$ (13) | \$ 32 |
| Valuation allowance for deferred tax assets | | | | |
| 2008 | \$ 133 | \$ 267 | \$ (42) | \$ 358 |
| 2007 | \$ 87 | \$ 46 | \$ — | \$ 133 |
| 2006 | \$ 86 | \$ 6 | \$ (5) | \$ 87 |

¹ Deductions represent uncollectible accounts written off, net of recoveries.

INDEX TO EXHIBITS

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | | Filed Herewith |
|----------------|---|---------------------------|-------------|---------|-------------|----------------|
| | | Form | File Number | Exhibit | Filing Date | |
| 3.1 | Intel Corporation Third Restated Certificate of Incorporation of Intel Corporation dated May 17, 2006 | 8-K | 000-06217 | 3.1 | 5/22/06 | |
| 3.2 | Intel Corporation Bylaws, as amended on November 12, 2008 | 8-K | 000-06217 | 3.1 | 11/13/08 | |
| 4.2.1 | Indenture for the Registrant's 2.95% Junior Subordinated Convertible Debentures due 2035 issued by Intel Corporation to Citibank N.A., dated as of December 16, 2005 (the "Convertible Note Indenture") | 10-K | 000-06217 | 4.2 | 2/27/06 | |
| 4.2.2 | Indenture dated as of March 29, 2006 between Intel Corporation and Citibank, N.A. (the "Open-Ended Indenture") | S-3ASR | 333-132865 | 4.4 | 3/30/06 | |
| 4.2.3 | First Supplemental Indenture to Convertible Note Indenture, dated as of July 25, 2007 | 10-K | 000-06217 | 4.2.3 | 2/20/08 | |
| 4.2.4 | First Supplemental Indenture to Open-Ended Indenture, dated as of December 3, 2007 | 10-K | 000-06217 | 4.2.4 | 2/20/08 | |
| 10.1** | Intel Corporation 1984 Stock Option Plan, as amended and restated effective July 16, 1997 | 10-Q | 333-45395 | 10.1 | 8/11/98 | |
| 10.2 | Intel Corporation 1997 Stock Option Plan, as amended and restated effective July 16, 1997 | 10-K | 000-06217 | 10.7 | 3/11/03 | |
| 10.3** | Intel Corporation 2004 Equity Incentive Plan, effective May 19, 2004 | 10-Q | 000-06217 | 10.3 | 8/2/04 | |
| 10.4** | Notice of Grant of Non-Qualified Stock Option under the Intel Corporation 2004 Equity Incentive Plan | 10-Q | 000-06217 | 10.7 | 8/2/04 | |
| 10.5** | Standard Terms and Conditions Relating to Non-Qualified Stock Options granted to U.S. employees on and after May 19, 2004 under the Intel Corporation 2004 Equity Incentive Plan | 10-Q | 000-06217 | 10.5 | 8/2/04 | |
| 10.6** | Standard International Non-Qualified Stock Option Agreement under the Intel Corporation 2004 Equity Incentive Plan | 10-Q | 000-06217 | 10.6 | 8/2/04 | |
| 10.7** | Intel Corporation Non-Employee Director Non-Qualified Stock Option Agreement under the Intel Corporation 2004 Equity Incentive Plan | 10-Q | 000-06217 | 10.4 | 8/2/04 | |
| 10.8** | Form of ELTSOP Non-Qualified Stock Option Agreement under the Intel Corporation 2004 Equity Incentive Plan | 8-K | 000-06217 | 10.1 | 10/12/04 | |
| 10.9** | Intel Corporation 2004 Equity Incentive Plan, as amended and restated, effective May 18, 2005 | 8-K | 000-06217 | 10.1 | 5/20/05 | |
| 10.10** | Form of Notice of Grant of Restricted Stock Units | 8-K | 000-06217 | 10.5 | 2/9/06 | |
| 10.11** | Form of Intel Corporation Nonqualified Stock Option Agreement under the 2004 Equity Incentive Plan | 10-K | 000-06217 | 10.16 | 2/27/06 | |
| 10.12** | Standard Terms and Conditions relating to Restricted Stock Units granted to U.S. employees under the Intel Corporation 2004 Equity Incentive Plan | 10-Q | 000-06217 | 10.2 | 5/8/06 | |
| 10.13** | Standard International Restricted Stock Unit Agreement under the 2004 Equity Incentive Plan | 10-Q | 000-06217 | 10.4 | 5/8/06 | |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | | Filed Herewith |
|----------------|---|---------------------------|-------------|---------|-------------|----------------|
| | | Form | File Number | Exhibit | Filing Date | |
| 10.14** | Standard Terms and Conditions relating to Non-Qualified Stock Options granted to U.S. employees on and after February 1, 2006 under the Intel Corporation 2004 Equity Incentive Plan (other than grants made under the SOP Plus or ELTSOP programs) | 10-Q | 000-06217 | 10.6 | 5/8/06 | |
| 10.15** | Standard Terms and Conditions relating to Restricted Stock Units granted to U.S. employees under the Intel Corporation 2004 Equity Incentive Plan (for grants under the ELTSOP Program) | 10-Q | 000-06217 | 10.9 | 5/8/06 | |
| 10.16** | Standard International Restricted Stock Unit Agreement under the 2004 Equity Incentive Plan (for grants under the ELTSOP Program) | 10-Q | 000-06217 | 10.11 | 5/8/06 | |
| 10.17** | Terms and Conditions relating to Nonqualified Stock Options granted to U.S. employees on and after February 1, 2006 under the Intel Corporation 2004 Equity Incentive Plan for grants formerly known as ELTSOP Grants | 10-Q | 000-06217 | 10.13 | 5/8/06 | |
| 10.18** | Standard International Nonqualified Stock Option Agreement under the 2004 Equity Incentive Plan (for grants after February 1, 2006 under the ELTSOP Program) | 10-Q | 000-06217 | 10.15 | 5/8/06 | |
| 10.19** | Amendment of Stock Option and Restricted Stock Unit Agreements with the Elimination of Leave of Absence Provisions | 10-Q | 000-06217 | 10.5 | 5/2/08 | |
| 10.20** | Intel Corporation 2006 Equity Incentive Plan, as amended and restated, effective May 17, 2006 | 8-K | 000-06217 | 10.1 | 5/22/06 | |
| 10.21** | Form of Notice of Grant—Restricted Stock Units | 8-K | 000-06217 | 10.13 | 7/6/06 | |
| 10.22** | Form of Notice of Grant—Nonqualified Stock Options | 8-K | 000-06217 | 10.24 | 7/6/06 | |
| 10.23** | Standard Terms and Conditions relating to Restricted Stock Units granted to U.S. employees on and after May 17, 2006 under the Intel Corporation 2006 Equity Incentive Plan (for grants under the standard program) | 8-K | 000-06217 | 10.1 | 7/6/06 | |
| 10.24** | Standard International Restricted Stock Unit Agreement under the 2006 Equity Incentive Plan (for grants under the standard program after May 17, 2006) | 8-K | 000-06217 | 10.2 | 7/6/06 | |
| 10.25** | Terms and Conditions relating to Restricted Stock Units granted on and after May 17, 2006 to U.S. employees under the Intel Corporation 2006 Equity Incentive Plan (for grants under the ELTSOP Program) | 8-K | 000-06217 | 10.7 | 7/6/06 | |
| 10.26** | International Restricted Stock Unit Agreement under the 2006 Equity Incentive Plan (for grants under the ELTSOP program after May 17, 2006) | 8-K | 000-06217 | 10.8 | 7/6/06 | |
| 10.27** | Intel Corporation 2006 Equity Incentive Plan Terms and Conditions Relating to Restricted Stock Units Granted to Paul S. Otellini on April 17, 2008 under the Intel Corporation 2006 Equity Incentive Plan (under the ELTSOP RSU Program) | 8-K | 000-06217 | 99.1 | 4/17/08 | |
| 10.28** | Standard Terms and Conditions relating to Non-Qualified Stock Options granted to U.S. employees on and after May 17, 2006 under the Intel Corporation 2006 Equity Incentive Plan (for grants under the standard program) | 8-K | 000-06217 | 10.14 | 7/6/06 | |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | | Filed Herewith |
|----------------|--|---------------------------|-------------|---------|-------------|----------------|
| | | Form | File Number | Exhibit | Filing Date | |
| 10.29** | Standard International Nonqualified Stock Option Agreement under the 2006 Equity Incentive Plan (for grants under the standard program after May 17, 2006) | 8-K | 000-06217 | 10.15 | 7/6/06 | |
| 10.30** | Form of Stock Option Agreement with Continued Post-Retirement Exercisability | 10-Q | 000-06217 | 10.3 | 5/2/08 | |
| 10.31** | Terms and Conditions relating to Nonqualified Stock Options granted to U.S. employees on and after May 17, 2006 under the Intel Corporation 2006 Equity Incentive Plan (for grants under the ELTSOP Program) | 8-K | 000-06217 | 10.19 | 7/6/06 | |
| 10.32** | International Nonqualified Stock Option Agreement under the 2006 Equity Incentive Plan (for grants after May 17, 2006 under the ELTSOP Program) | 8-K | 000-06217 | 10.20 | 7/6/06 | |
| 10.33** | Amendment of Stock Option and Restricted Stock Unit Agreements with the Elimination of Leave of Absence Provisions and the Addition of the Ability to Change the Grant Agreement as Laws Change | 10-Q | 000-06217 | 10.6 | 5/2/08 | |
| 10.34** | Form of Non-Employee Director Restricted Stock Unit Agreement under the 2006 Equity Incentive Plan (for RSUs granted after May 17, 2006) | 8-K | 000-06217 | 10.2 | 7/14/06 | |
| 10.35** | Terms and Conditions Relating to Nonqualified Options Granted to Paul Otellini on January 18, 2007 under the Intel Corporation 2006 Equity Incentive Plan | 10-K | 000-06217 | 10.42 | 2/26/07 | |
| 10.36** | Intel Corporation 2006 Equity Incentive Plan As Amended and Restated effective May 16, 2007 | 8-K | 000-06217 | 10.1 | 5/16/07 | |
| 10.37** | Intel Corporation 2007 Executive Officer Incentive Plan, effective as of January 1, 2007 | 8-K | 000-06217 | 10.2 | 5/16/07 | |
| 10.38** | Intel Corporation Deferral Plan for Outside Directors, effective July 1, 1998 | 10-K | 333-45395 | 10.6 | 3/26/99 | |
| 10.39** | Intel Corporation Sheltered Employee Retirement Plan Plus, as amended and restated effective January 1, 2006 | S-8 | 333-141905 | 99.1 | 4/5/07 | |
| 10.40** | First Amendment to the Intel Corporation Sheltered Employee Retirement Plan Plus, executed November 6, 2007 | 10-K | 000-06217 | 10.37 | 2/20/08 | |
| 10.41** | Second Amendment to the Intel Corporation Sheltered Employee Retirement Plan Plus, executed November 6, 2007 | 10-K | 000-06217 | 10.38 | 2/20/08 | |
| 10.42** | Form of Indemnification Agreement with Directors and Executive Officers | 10-K | 000-06217 | 10.15 | 2/22/05 | |
| 10.43** | Listed Officer Compensation | 10-Q | 000-06217 | 10.1 | 5/3/07 | |
| 10.44** | Intel Corporation 2006 Stock Purchase Plan, effective May 17, 2006 | S-8 | 333-135178 | 99.1 | 6/21/06 | |
| 10.45** | Amendment to the Intel Corporation 2006 Stock Purchase Plan, effective February 20, 2009 | | | | | X |
| 10.46** | Summary of Intel Corporation Non-Employee Director Compensation | 8-K | 000-06217 | 10.1 | 7/14/06 | |
| 10.47** | Intel Corporation 2006 Deferral Plan for Outside Directors, effective November 15, 2006 | 10-K | 000-06217 | 10.41 | 2/26/07 | |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | | Filed Herewith |
|----------------|---|---------------------------|-------------|---------|-------------|----------------|
| | | Form | File Number | Exhibit | Filing Date | |
| 10.48 | Form of Asset Transfer Agreement By and Between Newco and Intel Corporation | 10-Q | 000-06217 | 10.3 | 8/6/07 | |
| 10.49 | Asset Transfer Agreement By and Between Numonyx Holdings B.V., Numonyx B.V., and Intel Corporation, dated as of March 30, 2008 | 10-Q | 000-06217 | 10.2 | 5/2/08 | |
| 10.50 | Master Agreement By and Between STMicroelectronics N.V., Intel Corporation, Redwood Blocker S.A.R.L., and Francisco Partners II (Cayman) L.P., dated May 22, 2007 | 10-Q | 000-06217 | 10.4 | 8/6/07 | |
| 10.51 | Letter Agreement dated December 22, 2007 extending termination date of the Master Agreement | 8-K | 000-06217 | 99.1 | 12/26/07 | |
| 10.52 | Amended and Restated Master Agreement By and Between STMicroelectronics N.V., Intel Corporation, Redwood Blocker S.A.R.L., Francisco Partners II (Cayman) L.P., PK Flash, LLC, and Francisco Partners Parallel Fund II L.P., dated March 30, 2008 | 10-Q | 000-06217 | 10.1 | 5/2/08 | |
| 12.1 | Statement Setting Forth the Computation of Ratios of Earnings to Fixed Charges | | | | | X |
| 21.1 | Intel Corporation Subsidiaries | | | | | X |
| 23.1 | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm | | | | | X |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act) | | | | | X |
| 31.2 | Certification of Chief Financial Officer and Principal Accounting Officer pursuant to Rule 13a-14(a) of the Exchange Act | | | | | X |
| 32.1 | Certification of the Chief Executive Officer and the Chief Financial Officer and Principal Accounting Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | | | | | X |

** *Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.*

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTEL CORPORATION

Registrant

By: /s/ STACY J. SMITH

Stacy J. Smith
Vice President, Chief Financial Officer, and
Principal Accounting Officer
February 20, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ CRAIG R. BARRETT

Craig R. Barrett
Chairman of the Board and Director
February 20, 2009

/s/ JAMES D. PLUMMER

James D. Plummer
Director
February 20, 2009

/s/ CHARLENE BARSHEFSKY

Charlene Barshefsky
Director
February 20, 2009

/s/ DAVID S. POTTRUCK

David S. Pottruck
Director
February 20, 2009

/s/ CAROL A. BARTZ

Carol A. Bartz
Director
February 20, 2009

/s/ JANE E. SHAW

Jane E. Shaw
Director
February 20, 2009

/s/ SUSAN L. DECKER

Susan L. Decker
Director
February 20, 2009

/s/ STACY J. SMITH

Stacy J. Smith
Vice President, Chief Financial Officer, and
Principal Accounting Officer
February 20, 2009

/s/ REED E. HUNDT

Reed E. Hundt
Director
February 20, 2009

/s/ JOHN L. THORNTON

John L. Thornton
Director
February 20, 2009

/s/ PAUL S. OTELLINI

Paul S. Otellini
President, Chief Executive Officer, Director, and
Principal Executive Officer
February 20, 2009

/s/ DAVID B. YOFFIE

David B. Yoffie
Director
February 20, 2009