UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

/x/ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 30, 2000,

/ / Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .

Commission File Number 0-6217

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

Delaware	**94-1672743**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2200 Mission College Boulevard, Santa Clara, California, 95052-8119
(Address of Principal Executive Offices, Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
NONE	

Securities registered pursuant to Section 12(g) of the Act:

Common stock, $0.001 par value

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

Aggregate market value of voting stock held
by non-affiliates of the registrant as of February 23, 2001
$194.2 billion

6,718 million shares of common stock outstanding as of February 23, 2001

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of Annual Report to Stockholders for fiscal year ended December 30, 2000—Parts I, II and IV.

(2) Portions of the company's proxy statement relating to its 2001 Annual Meeting of Stockholders, to be filed subsequently—Part III

PART I **

ITEM 1. BUSINESS

INDUSTRY

Intel Corporation, the world's largest semiconductor chip maker, supplies the computing and communications industries with chips, boards, and systems building blocks that are integral to computers, servers, and networking and communications products. Our products are offered at various levels of integration and are used by industry members to create advanced computing and communications systems. Intel was incorporated in California in 1968 and reincorporated in Delaware in 1989.

PRODUCTS

Our major products include microprocessors, chipsets, flash memory products, networking and communications products, embedded processors and microcontrollers, and PC peripheral products. Our component-level products consist of integrated circuits used to process information. Integrated circuits are silicon chips, known as semiconductors, etched with interconnected electronic switches.

Our customers are:

- original equipment manufacturers (OEMs) who make computer systems, telecommunications and data communications equipment, and peripherals;
- PC and computing appliance users (including individual consumers, large and small businesses, and Internet service providers) who buy Intel's PC enhancement products, business communications products and networking products through retail and industrial distributors and resellers throughout the world;
- other manufacturers, including makers of a wide range of industrial and communications equipment; and
- businesses that are building or enhancing Internet data centers or providing e-Commerce services to their customers or clients.

We are organized into five operating segments according to our various product lines: the Intel Architecture Group, the Wireless Communications and Computing Group, the Network Communications Group, the Communications Products Group, and the New Business Group. Each group has a vice president who reports directly to Intel's Chief Executive Officer. The Intel Architecture Group is the only reportable operating segment for financial statement purposes. No other operating segment represents 10% or more of our revenues or operating profit. Operating results of segments that are not individually reportable are included in the "all other" category for financial statement segment reporting purposes. The information regarding revenues and operating profit by reportable segments, and revenues from unaffiliated customers by geographic region, under the headings "Operating segment and geographic information" on page 33 of our 2000 Annual Report to Stockholders and "Management's discussion and analysis of financial condition and results of operations" on pages 36 to 41 of the 2000 Annual Report is incorporated by reference.

** Page references to the 2000 Annual Report to Stockholders under Items 1 and 2 in Part I and Items 5, 6, 7, 7A and 8 in Part II; and Item 14 in Part IV relate to the bound, printed versions of the annual report, not to the electronic version appearing at the Intel® Internet site (www.intc.com/intel/annual00/). However, all data referred to also appears in the electronic version.

Intel Architecture Group

The Intel Architecture Group (IAG) develops platform solutions around our microprocessors and chipsets for all major computing segments worldwide, using a tiered branding approach. Our strategy is to provide the best price for performance through a broad range of microprocessors, chipsets, boards and systems for end products in the desktop, mobile and server market segments.

- *Desktop and mobile* platforms incorporate our microprocessor and chipset products in desktop computers, notebooks, entry-level servers and workstations, and Internet appliances.
- *Server* platform products are targeted for mid-range to high-end servers and workstations. Servers are powerful systems, often with multiple microprocessors working together, that house large amounts of data, direct data traffic, and control central functions in local and wide area networks and on the Internet. Workstations offer higher performance than standard desktop PCs, especially in graphics processing and in the ability to carry out several tasks at the same time.

IAG products include processors and board- and system-level products based on the P6 micro-architecture (including the Intel® Celeron™, Pentium® III and Pentium® III Xeon™ processors) as well as the Intel® NetBurst™ micro-architecture with the release of the Pentium® 4 processor. We also provide core-logic chipsets for most of our microprocessor products, which improve ease of use for our OEM customers, provide new capabilities and enable system performance to scale as the processor performance increases. In addition, to further enhance the acceptance and deployment of these products by our customers, we provide e-Business enabling solutions.

Microprocessors. A microprocessor is the central processing unit of a computer system. It processes system data and controls other devices in the system, acting as the brains of the computer. One indicator of microprocessor performance is its clock speed, the rate at which its internal logic operates, which is measured in units of hertz, or cycles processed per second. One megahertz (MHz) equals one million cycles processed per second, and one gigahertz (GHz) equals one billion cycles processed per second. Other indicators of chip performance are memory storage and access. The memory stored on a chip is measured in bytes, with 1,024 bytes equaling one kilobyte (KB), 1.049 million bytes equaling one megabyte (MB), and 1.074 billion bytes equaling one gigabyte (GB). Cache is a memory subsystem in which frequently used data is duplicated for quick access. A second level of cache (L2) located directly on the microprocessor, can also be used to further increase system performance.

Our developments in semiconductor design and manufacturing have made it possible to decrease the size of circuits etched into silicon, permitting a greater number of transistors to be used on each microprocessor die, and a greater number of microprocessors to be made from each silicon wafer. The result is smaller, faster microprocessors that consume less power and cost less to manufacture. The width of the individual transistors on a chip is measured in microns; one micron equals one millionth of a meter. In 2000, we finished converting substantially all of our microprocessor manufacturing to the 0.18-micron process technology, and in November we announced completion of the development of the 0.13-micron process technology. See the discussion of manufacturing process technologies under the heading "Manufacturing, Assembly and Test" in Part I, Item 1 of this Form 10-K.

In 2000, we announced several new microprocessor products aimed at the various computing market segments ranging from value PCs (systems costing less than $1,000) to high-performance workstations and servers.

Value PCs. The Intel Celeron processor meets the core computing needs and affordability requirements common to many new PC users. During 2000, we introduced several higher speed versions of the Celeron processor running at speeds ranging from 533 to 766 MHz. The 566 MHz and 600 MHz versions, introduced in March 2000, were the first Celeron processors to integrate Internet

Streaming SIMD extensions, which help improve multimedia performance significantly over previous versions. In January 2001, we introduced an 800-MHz version of the Celeron processor, our first desktop value PC processor to include a 100-MHz system bus. This technology provides a wider communications path between the processor and the rest of the system, resulting in faster overall system performance.

Performance desktop PCs. The Pentium III processor is aimed at desktop PC users who need powerful performance for a variety of demanding applications and Internet functions. This processor features an integrated L2 cache that runs at the full speed of the processor core. L2 cache, also known as Advanced Transfer Cache, enables the performance of applications to scale with increasing clock frequencies. In March 2000, we introduced the Pentium III processor running at 1 GHz. During 2000, we also introduced versions running at 850, 866 and 933 MHz.

In November 2000, we introduced the Pentium 4 processor running at 1.5 and 1.4 GHz. At the end of 2000, this was our highest performance processor for the desktop PC segment. The Pentium 4 processor is our first completely new desktop processor design since the P6 micro-architecture was introduced in 1995. The Pentium 4 processor incorporates the Intel NetBurst micro-architecture to deliver improved performance for video and audio, 3D graphics, and a variety of Internet technologies, including streaming video, speech processing and other multimedia processing tasks.

Mobile PCs. We design our products for mobile PCs to provide notebook and laptop PC users with the performance they need while meeting the power consumption and size constraints of mobile PCs. As with our desktop products, mobile products are available at a variety of price/performance points which allows our OEM customers to meet the demands of all notebook PC designs. These notebook designs include full size, thin and light and ultra-portable. In 2000, we introduced several mobile Celeron processors ranging from 400 to 700 MHz, aimed at the value mobile PC market segment. In January 2000, we introduced mobile Pentium III processors featuring Intel® SpeedStep™ technology running at 600 and 650 MHz. Intel SpeedStep technology allows the processor to switch to a lower voltage and clock speed when the user is disconnected from an AC power source in order to extend the system's battery life; the chip resumes full speed when the user plugs back into an outlet or docking station. In June 2000, we introduced two more Pentium III processors featuring Intel SpeedStep technology, including one that consumes less than one watt of power on average. In September 2000, we introduced 800- and 850-MHz versions of the mobile Pentium III processor, which use Intel SpeedStep technology to drop power consumption down to as low as 1.35 volts.

In January 2001, we introduced the Ultra Low Voltage mobile Pentium III processor running at 500 MHz. Designed for mobile PCs weighing less than 3 pounds and measuring one inch in height, it is the industry's first processor to operate at under 1 volt while consuming less than half a watt of power. At the same time, we announced the Ultra Low Voltage mobile Celeron processor running at 500 MHz. In February 2001, we introduced the Low Voltage mobile Pentium III processor running at 700 MHz capable at operating at 1.1 volts while consuming less than 1 watt of power. The Ultra Low Voltage processors are targeted for the sub-notebook market while the Low Voltage processors are targeted for the mini-notebook market, both in the ultra-portable design category.

Servers and workstations. In May 2000, we announced new Pentium III Xeon processors for use in high-performance multiprocessing servers, which use between four and eight processors per system. The 700-MHz processors were the first "large cache" Pentium III Xeon processors built on our 0.18-micron manufacturing technology, and have either 1 or 2 MB of L2 cache on the die. The 2-MB version integrates 140 million transistors on a single microprocessor die. In August 2000, we introduced the industry's first GHz processor for servers and high-end workstations. OEMs began offering systems featuring the Pentium III Xeon processor running at 1 GHz in the third quarter of 2000, targeting the high-end workstation and front-end server segments. Front-end or Internet servers, featuring one or

two processors, have become a common solution for companies conducting e-Business over the Internet.

In February 2001, we announced that the next generation of our 32-bit processor line for servers, formerly codenamed Foster, will be branded Intel® Xeon, dropping the Pentium portion in the name. The Intel Xeon processor is based on the Intel NetBurst micro-architecture. We expect to introduce products under the Intel Xeon name in 2001.

We continued development of our next-generation 64-bit processor for high-end servers and workstations, the Intel Itanium™ processor. This microprocessor will expand the capabilities of the Intel architecture to address the high-performance server and workstation market segments, while still running the software that currently operates on machines based on our 32-bit processors. A 64-bit microprocessor is more complex than a 32-bit microprocessor and requires a more complex system architecture, but it can handle twice as much data in each clock cycle. Thus, a 64-bit processor enables most data-intensive applications, such as enterprise resource planning and intensive graphics modeling, to run much faster than they would on a 32-bit processor. In October 2000, we hosted the eXCHANGE e-Business Summit, at which many OEMs demonstrated server systems based on a prototype version of the Itanium processor. More than 400 applications are in development, and we have shipped thousands of prototype systems and processors since November 1999. In 2000, we began to ship processors for systems used by information technology end users in pilot installations and we expect the release of production systems during 2001.

Also during 2000, we announced e-Business enabling solutions designed to further enhance the acceptance and deployment of Intel Architecture-based systems. These services will be deployed through our Intel Solution Centers and include hardware, software, lab testing equipment and engineering services that Web integrators can use to validate and deploy comprehensive e-Business solutions in conjunction with leading industry suppliers.

Chipsets. Chipsets perform essential logic functions supporting the central processing unit, and extend the graphics, audio, video and other capabilities of many systems based on our processors. Our chipsets are compatible with one or more of a variety of industry-accepted buses, such as the Peripheral Components Interconnect (PCI) Local Bus specification and the Accelerated Graphics Port (AGP) specification. A bus is a circuit that carries data between parts of the system, for example, between the processor and main memory.

To help computer makers accelerate their products' time-to-market, we design, manufacture and sell chipsets for each computing market segment. In 2000, we introduced the Intel® 820E, 815 and 815E chipsets for Pentium III processor-based PCs, each with a new input/output controller hub delivering greater system performance and flexibility. We also introduced the Intel® 815EM mobile chipset with integrated graphics for mobile PCs based on the Pentium III and Celeron processors, and the Intel® 850 chipset supporting the Pentium 4 processor.

In January 2001, we introduced the Intel® 810E2 chipset for Celeron processors, which enables PC makers to provide faster disk drive performance, more Universal Serial Bus (USB) ports and surround sound audio in systems priced at less than $1,000.

For workstation and server makers, we provide the Intel® 840 chipset, which supports the Pentium III Xeon processor to enhance system features and capabilities allowing greater texturing, more fluid movements, and better display output in demanding workstations and servers. We also offer the Profusion™ chipset, supporting up to eight Pentium III Xeon processors, designed to help OEM customers build advanced multiprocessing servers.

Intel's customers demand alternatives in the area of memory architecture. In response to that demand Intel chipsets currently support Rambus Dynamic Random Access Memory (RDRAM) and Synchronous DRAM (SDRAM). In the future Intel expects to add support for Double Data Rate DRAM (DDR) to its product line. Intel has adopted RDRAM as the primary memory solution for its flagship desktop Pentium 4 processors and is actively working with the industry to promote RDRAM as the highest performance desktop memory solution.

Board-level products. While many of our OEM customers use our microprocessors as components in designing their own computer products, some use board-level products that we design and build as basic building blocks in their products. OEMs may buy at this level of integration to accelerate their time-to-market and direct their own investments to other areas of their product lines. We provide board-level products to give our OEM customers flexibility, and board-level products based on our microprocessors are available for most computing market segments.

Sales and gross margin. During 2000 and 1999, sales of microprocessors and related board-level products, including chipsets, based on the P6 micro-architecture comprised a substantial majority of our consolidated net revenues and gross margin. For 1998, these products represented a majority of our consolidated net revenues and a substantial majority of gross margin. Sales of Pentium® family processors, including Pentium processors with MMX™ technology were rapidly declining but still a significant portion of our revenues and gross margin for 1998. In 2000, we initiated a program to replace motherboards that had a defective memory translator hub component that enabled SDRAM to work with the Intel® 820 chipset. The total impact on gross margin for this program was approximately $253 million.

Wireless Communications and Computing Group

The Wireless Communications and Computing Group (WCCG) provides a variety of component-level hardware and software used in digital cellular communications products and other applications using both low-power processing and flash memory. WCCG products support handheld devices such as mobile phones, two-way pagers and personal digital assistants.

Flash memory. Flash memory is a specialized type of memory component used to store user data and program code; it retains this information even when the power is off. Our flash memory is used predominantly in mobile phones, but is also found in other products including MP3 music players, handheld PC organizers, handheld voice recorders and digital answering machines, in addition to industrial products such as network routers and communications systems. In May 2000, we reached a significant milestone, shipping our billionth flash memory chip since the product's introduction in 1988.

In April 2000, we announced the Intel® 0.18-micron Advanced+ Boot Block Flash Memory, our first flash memory product using our 0.18-micron manufacturing process. This fourth-generation Boot Block memory product includes next-generation advanced security features that minimize the risk of cloning and other types of fraud in digital mobile phones and Internet appliances. In October 2000, we announced the Intel® 1.8 Volt Wireless Flash Memory, with four times higher performance than previous flash products and low-voltage features that allow Internet-enabled cellular phones to save up to 60% of their energy, thus extending battery life.

Embedded solutions for handheld devices. In August 2000, we introduced the Intel® XScale™ micro-architecture, a new chip architecture designed to be used in a wide variety of advanced handheld devices, wireless Internet devices and networking infrastructure applications. Building on Intel® StrongARM technology which we license from ARM, Ltd., the Intel XScale micro-architecture offers low-power operation (as low as 1/10,000th of a watt) and fast clock speeds (approaching 1 GHz), supplying the needs of a diverse set of Internet client devices as well as networking and storage equipment. The low-power capabilities of the Intel XScale micro-architecture are enhanced with our

Dynamic Voltage Management and Intel® Media Processing Technology. Dynamic Voltage Management allows developers to scale the clock frequency and voltage dynamically to adjust performance to application needs, while maintaining battery life. Intel Media Processing Technology is a co-processor engine that enables more power-efficient multimedia processing for Internet applications.

In December 2000, we joined with Analog Devices, Inc. to introduce the integrated Micro Signal Architecture, which incorporates digital signal processor (DSP) and microcontroller features in a single platform. The architecture improves ease of programmability, performance and power consumption, and is optimized for processing modem, audio, video, image and voice signals in battery-powered communications applications.

Other wireless technologies. In September 2000, we introduced a new platform architecture designed to accelerate the development of next-generation Internet applications for wireless devices. The Intel® Personal Internet Client Architecture (PCA) is a blueprint that defines specifications for building new wireless solutions capable of processing advanced Internet applications such as those envisioned for Internet-ready cell phones and other wireless handheld devices. This architecture allows parallel development of software and hardware, resulting in faster time-to-market for OEMs.

In May 2000, we announced that we would work with Mitsubishi Electric Corporation to co-develop a cellular chipset for the third-generation (3G) wireless technology market, integrating high-speed Internet access with more traditional phone functions. This relationship is part of a broader strategy to advance wireless technologies around the world. In 2000, we announced the formation of two Wireless Competence Centers, in Tsukuba, Japan and Beijing, China. The mission of these centers is to promote development of wireless Internet technology through cooperation with leading companies in the local cellular phone industries.

Network Communications Group

The Network Communications Group (NCG) provides component-level networking silicon building blocks for networking and communications systems. NCG delivers networking products to OEMs building communications systems for home and small and mid-sized businesses. NCG's products include network connectivity products including wireless products, network processors, high-speed adapters for Internet access, and optical networking components. NCG also offers embedded microprocessors and microcontrollers for networking and communications as well as other applications.

During 2000, we continued to execute our strategy of acquiring companies with key technologies to extend and accelerate our product offerings in networking and communications. In March 2000, we acquired Ambient Technologies, Inc. Ambient develops highly integrated digital subscriber line (DSL) silicon solutions and analog modems designed to bring high-speed Internet access to home users and small businesses.

Also in March 2000, we acquired GIGA A/S, headquartered in Copenhagen, Denmark. GIGA provides high-performance networking chips enabling the rapid development of the fiber-optic infrastructure necessary to support Internet growth.

In May 2000, we acquired Basis Communications Corporation, a maker of advanced semiconductors and other products for a range of network access systems such as switches linking local area networks to the Internet.

In August 2000, we acquired Trillium Digital Systems Inc., a supplier of communications software products, support and services that will help us accelerate our ability to offer networking and telecommunications customers a more complete platform-level solution.

In January 2001, we announced that we entered into a definitive agreement to acquire Xircom, Inc and in March we successfully completed the tender offer. Xircom is a supplier of PC cards and other products used to connect mobile computing devices to corporate networks and the Internet.

In February 2001, we announced that we entered into a definitive agreement to acquire privately held VxTel Inc. for approximately $550 million in a cash transaction. VxTel develops Voice-over-Packet products that deliver high-quality voice and data communications over next-generation optical networks. The completion of this acquisition is subject to regulatory review and normal closing conditions.

Networking connectivity products. In 2000, we continued to introduce enhanced versions of networking connectivity products. In January 2000, we announced our new family of Fast Ethernet Intel® PRO/100 S network security-enabled adapters, which are designed to produce higher performance and end-to-end security within the local area network (LAN). All of the Intel PRO network connections feature the Intel® SingleDriver™ technology, which is designed to lower network support costs and complexity by providing a common set of software drivers for servers, desktops, network PCs and mobile clients. Ethernet, Fast Ethernet and Gigabit Ethernet refer to a local network used to transfer information at 10, 100 and 1,000 million bits per second, respectively. In June 2000, we introduced the Intel® PRO/1000 F Server Adapter, which provides Gigabit Ethernet over fiber-optic cables, as well as the Intel® PRO/1000 T Server Adapter, delivering high-performance network connections over copper wiring. At the heart of these new Gigabit Ethernet products is the Intel® 82543GC Gigabit Ethernet Controller, which includes integrated support for Ethernet, Fast Ethernet and Gigabit Ethernet network connections in a single chip. This controller allows these technologies to interact seamlessly on the same network and provides a clear migration path from older Ethernet networks to the next-generation Gigabit Ethernet networks.

In June 2000, we introduced wireless LAN (WLAN) solutions based on the Institute of Electrical and Electronics Engineers (IEEE) 802.11b High-Rate industry standard. We introduced the Intel® PRO/Wireless 2011 LAN PC Card, a credit-card-size product that can be inserted into a laptop, allowing secure, high-speed, reliable wireless network and Internet transmissions to be sent and received. Along with this product introduction, we introduced the Intel® PRO/Wireless 2011 LAN Access Point, which functions as a wireless hub to the mobile PC cards, connecting the wired network and the wireless devices. These wireless devices are the first products resulting from the joint development agreement announced in February 2000 between Intel and Symbol Technologies, Inc.

We also introduced optical networking products in 2000. In June, we introduced seven optical networking chips for applications such as voice, LAN and wide area network (WAN) data traffic, storage area networks (SANs) and virtual private networks (VPNs). These new components are aimed at the telecommunications infrastructure, from the access point of the optical network to the network core, and include receiver chips, transmitter chips, chips that improve transmission quality, chips providing packet framing, multiplexer chips and channel-mapping chips.

In August 2000, we introduced the Intel® GigaBlade™ network accelerator. This device is designed to provide greater intelligence about the type of traffic that flows over an optical network, enabling service providers to offer enhanced services to their customers. Server cards based on the Intel GigaBlade network accelerator connect WANs to metropolitan area networks (MANs) and LANs. By acting as a monitor on the optical fiber, the Intel GigaBlade network accelerator is capable of viewing traffic flows and extracting data, which can then be processed by a wide range of standard applications running on the server, including billing, provisioning, hacker intrusion detection and asset deployment.

Network processors. Our Intel IXA architecture provides a flexible platform for the networking and communications industry to build faster, more intelligent networks using reprogrammable silicon. In May 2000, we announced a new higher performance network processor based on our IXP1200 product line. The new version is capable of processing 3 million packets of data per second. The IXP1200 chips have the Intel StrongARM technology, allowing them to consume less than 5 watts of

power. In November 2000, we extended this line with the Intel® IXP225 DSL and IXP220 DSL network processors. The former combines voice and data in DSL-based Internet access devices and gateways, while the latter brings network processing to data-only equipment, such as entry-level bridges and routers.

Embedded control products. Our embedded control products include a range of components used to control functions in networking and communications applications, such as telecommunications, hubs, routers and WAN systems. Our embedded control chips are also used in laser printers, imaging, storage media, point-of-sale systems, industrial automation equipment, automotive systems and other applications.

Adding to our embedded product line offerings, in May 2000, we introduced a range of higher speed Pentium III and Celeron processors for applied computing applications, consisting of high-performance connected systems designed for networking and communications, and commercial and industrial market segments.

In June 2000, we introduced the first input/output (I/O) processor to offer an integrated 64-bit, 66-MHz PCI-to-PCI bridge, which doubles PCI speed and bandwidth over previous generations. The Intel® 80303 I/O processor is our third-generation I/O processor, successor to the popular i960® RN I/O processor. The 80303 is optimized for data-intensive applications, such as SANs, communications systems and networking line cards.

Other networking products. In January 2000, we announced the Intel® PRO/DSL 3100 Modem. This modem is based on two industry standards that allow access to the Internet at speeds up to 150 times faster than the fastest analog modems.

In April 2000, we launched our first wireless AnyPoint™ home networking products, which allow several PCs or laptops in a home to share files, printers and a single simultaneous Internet connection without wires.

Communications Products Group

The Communications Products Group provides system-level communications products directed at service providers running e-Business data centers. These products include hubs, routers and switches for Ethernet and Fast Ethernet networks, e-Commerce infrastructure appliances and computer telephony components. Computer telephony is a term used to encompass a wide variety of technologies and applications that use the information processing capabilities of a computer to add intelligence to telephone functions and to combine these functions with data processing.

In February 2000, we introduced the Intel® NetStructure™ family of communications products and services designed to help businesses improve their e-Commerce capabilities through faster online connections, security authentication and improved server response time. In May 2000, we announced Intel NetStructure products that intelligently and more reliably control secure Extensible Markup Language (XML)-based Internet transactions for business-to-business e-Commerce. In December 2000, we announced that Hewlett-Packard would be the first major OEM customer to adopt the Intel NetStructure product line. This announcement reflects a strategic transition that we announced in November 2000, shifting the Intel NetStructure product line from a branded product strategy to an OEM sales model.

In April 2000, we acquired Picazo Communications, Inc., a computer telephony solutions provider. This acquisition provides us and our Dialogic subsidiary with channel expertise and intellectual property to accelerate customer deployment of communications solutions based on CT Media™ server software. CT Media is a software platform for building advanced telecommunications servers that support communications applications such as IP telephony, network communications, integrated messaging, fax, contact management and other applications from different companies.

In September 2000, we announced key new technology building blocks for accessing Web sites using speech commands. The new products have a voice portal capability that provides the first standardized platform for speech-enabled application development in the Internet-based voice servers.

In October 2000, we acquired Ziatech Corporation. Ziatech designs and markets a full range of Intel Architecture-based circuit boards, hardware platforms and development systems.

New Business Group

The New Business Group (NBG) focuses on nurturing and growing opportunities in new market segments, including businesses based on the Internet and the PC. The group currently offers Web hosting, e-Commerce data center services and connected peripherals.

In 2000, Intel Online Services, Inc. opened seven data centers in the United States, Europe, India, Japan, Korea and Australia, offering Web hosting and data center services. These services include facilities, servers and other services needed to help customers maintain and grow their e-Business activities.

Also in 2000, NBG products included four new offerings in our Intel® PC Camera series; the Intel® Wireless Series of PC peripherals, including an Intel branded game pad, mouse, keyboard and base station; and innovative PC enhanced toys including the Intel® Play™ Computer Sound Morpher.

In December 2000, Intel and Excalibur Technologies Corporation formed a new company, Convera Corporation. We contributed our Interactive Media Services division and cash to Convera in exchange for a retained interest in the company. Convera provides advanced technologies, products and services to digital content owners, allowing them to manage, enhance and securely distribute digital content over the Internet, intranets, set-top boxes and wireless devices.

MANUFACTURING, ASSEMBLY AND TEST

The majority of our wafer production, including microprocessor, flash memory and networking silicon fabrication, is conducted within the United States at our facilities in New Mexico, Oregon, Arizona, California and Massachusetts. A significant portion of our wafer production, primarily microprocessor and chipset fabrication, is conducted outside the United States at facilities in Israel and Ireland. For the fourth quarter of 2000, the Israel and Ireland facilities accounted for approximately 30% of our total wafer fabrication.

As of year-end 2000, substantially all of our microprocessors were built using the 0.18-micron process technology. We are manufacturing wafers using the 0.18-micron process technology in Arizona, California, Ireland, Israel, New Mexico and Oregon. In November 2000, we announced the completion of the development of the 0.13-micron (130 nanometer) process technology. The 0.13-micron process technology features structures that are smaller than 1/1,000th the thickness of a human hair (0.18 microns is 1/500th the thickness of a human hair). We expect to begin manufacturing our first product using 0.13-micron process technology in production volumes in the second half of 2001, enabling us to continue to deliver new generations of high-performance microprocessors. We believe that we were the first company to complete development of the 0.13-micron process technology and to demonstrate manufacturing readiness with complex integrated circuits.

In 2000, we announced that we would begin building high-volume 300mm (12-inch wafer) fabrication facilities. Some of these facilities will begin production on 0.13-micron process technology. The largest wafer size we currently use in wafer production is 200mm (8-inch wafer). We expect the larger 300mm wafer size to cut die manufacturing costs by more than 30%. We plan to start production using 300mm wafers in 2002.

During the first quarter of 2000, we purchased a fabrication facility in Colorado. During 2000, we made substantial retrofitting changes and process improvements at this facility, including equipment installations to manufacture flash memory. We expect to begin manufacturing at the Colorado facility in the second quarter of 2001.

We also manufacture microprocessor- and networking-related board-level products and systems at facilities in Malaysia, Oregon and Washington. In addition, we manufacture board-level products in Puerto Rico; however, in January 2001, we announced that we would phase out our manufacturing operations in Puerto Rico during the first half of 2001. Based on an assessment across our worldwide board-level manufacturing facilities, we concluded that the operations in Puerto Rico were less cost competitive than our other operations.

A substantial majority of our components assembly and testing, including assembly and testing for microprocessors, is performed at facilities in Costa Rica, Malaysia and the Philippines. We also perform components assembly and testing at a facility in China, and in August 2000 announced plans to expand this facility.

To augment capacity in the United States as well as internationally, we use subcontractors to perform assembly of certain products and wafer fabrication for certain components, primarily flash memory, chipsets, and networking and communications component products. We also use subcontractors for the manufacture of some board-level products and systems, and purchase certain communication networking products and PC peripherals from external vendors.

In general, if we were unable to manufacture wafers or to assemble and test our products abroad, or if air transportation between our foreign facilities and the United States were disrupted, there could be a material adverse effect upon our operations. In addition to normal manufacturing, assembly and test risks, our operations outside the United States are subject to certain additional exposures, including currency controls and fluctuations; tariff, import and other restrictions and regulations; and

political instability, such as unrest in Israel. To date, we have not experienced significant difficulties related to these foreign business risks.

Manufacturing of integrated circuits is a complex process. Normal manufacturing risks include errors and interruptions in the production process and defects in raw materials, as well as other risks, all of which can affect yields. A substantial decrease in yields would result in higher manufacturing costs and the possibility of not being able to produce sufficient volume to meet specific product demand.

EMPLOYEES

As of December 30, 2000, we employed approximately 86,100 people worldwide.

SALES

Most of our products are sold or licensed through sales offices located near major concentrations of users throughout North America, Europe, Asia-Pacific, Japan and other parts of the world.

We also use industrial and retail distributors and representatives to distribute our products both within and outside the United States. Typically, distributors handle a wide variety of products, including those that compete with our products, and fill orders for many customers. Most of our sales to distributors are made under agreements allowing for price protection on unsold merchandise and right of return on stipulated quantities of unsold merchandise. Sales representatives generally do not offer directly competitive products but may carry complementary items manufactured by others. Representatives do not maintain a product inventory; instead, their customers place orders directly with us or through distributors. We conducted business with more than 2,500 customers worldwide in 2000, including customers of our acquired companies. Compaq Computer Corporation and Dell Computer Corporation each contributed approximately 13% to our total sales in 2000. A substantial majority of the sales to these two customers consisted of Intel Architecture Group products. No other customer accounted for more than 10% of our total revenues. Sales to our five largest customers accounted for approximately 42% of total revenues. The information regarding revenues and operating profit by reportable segments and revenues from unaffiliated customers by geographic region under the heading "Operating segment and geographic information" on page 33 of our 2000 Annual Report to Stockholders, is incorporated by reference.

BACKLOG

Our sales are made primarily pursuant to standard purchase orders for delivery of standard products. We have some agreements that give a customer the right to purchase a specific number of products during a specified time period. Although not generally obligating the customer to purchase any particular number of such products, some of these agreements do contain billback clauses. Under these clauses, customers who do not purchase the full volume agreed to are liable for billback on previous shipments up to the price appropriate for the quantity actually purchased. As a matter of industry practice, billback clauses are difficult to enforce. The quantity actually purchased by the customer, as well as the shipment schedules, are frequently revised during the agreement term to reflect changes in the customer's needs. In light of industry practice and experience, we do not believe that such agreements are meaningful for determining backlog amounts. We believe that only a small portion of our order backlog is noncancellable and that the dollar amount associated with the noncancellable portion is not material. Therefore, we do not believe that backlog as of any particular date is indicative of future results.

COMPETITION

Our goal is to be the preeminent building block supplier to the worldwide Internet economy. Our primary focus areas are the desktop and mobile platforms, the server platform, and networking and communications including wireless communications, as well as new business opportunities around the Internet. In each of these market segments, we compete, to various degrees, on the basis of functionality, performance, quality, price and availability. We are engaged in a rapidly advancing field of technology in which our ability to compete depends upon our ability to improve our products and processes, develop new products to meet changing customer requirements and reduce costs. Prices decline rapidly in the semiconductor industry as unit volumes grow, further competition develops and production experience is accumulated. Many companies compete with us in the various computing, networking and communications market segments and are engaged in the same basic fields of activity, including research and development. Both within and outside the United States, these competitors range in size from large multinational companies to smaller companies competing in specialized market segments.

The Intel Architecture Group operating segment supports the desktop, mobile and server platform initiatives. Our strategy for the desktop, mobile and server platforms is to introduce ever-higher performance microprocessors and chipsets, developed for different market segments of the worldwide computing market, using a tiered branding approach. To further enhance the acceptance and deployment of these products by our customers, we also provide e-Business enabling solutions. In line with our strategy, we seek to develop higher performance microprocessors based on the P6 micro-architecture specifically for each computing segment. We also plan to introduce higher performance versions of processors based on the Intel NetBurst micro-architecture.

Our financial results are substantially dependent on sales of microprocessors by the Intel Architecture Group. A number of competitors market software-compatible products intended to compete with Intel Architecture-based processors. We also face significant competition from companies offering rival microprocessor architectures. The Celeron processor competes with existing and future products in the highly competitive value PC market segment. The Pentium III processor and the Pentium 4 processor compete with existing and future products in the performance desktop and entry-level workstation market segment. Competitive product offerings in the performance desktop market segment have recently increased. The Pentium III Xeon processor competes in the mid-range and high-end server and workstation market segments with established products based on rival architectures.

Many of our competitors are licensed to use our patents. Furthermore, based on current case law, our competitors can design microprocessors that are compatible with our microprocessors and avoid our patent rights through the use of foundry services that have licenses with us. Competitors' products may add features, increase performance or sell at lower prices. We cannot predict whether our products will continue to compete successfully with such existing rival architectures or whether new architectures will establish or gain market acceptance or provide increased competition with our products. Future distortion of price maturity curves could occur if software-compatible products enter the market segment in significant volume or alternative architectures gain market acceptance.

We plan to cultivate new businesses as well as continue to work with the computing industry to expand Internet capabilities and product offerings, and develop compelling software applications that can take advantage of higher performance microprocessors and chipsets, increasing demand for Intel's newer products in each computing market segment. We may continue to take various steps, including reducing microprocessor prices and offering rebates at such times as we deem appropriate, in order to increase acceptance of our latest technology and to remain competitive within each relevant market segment.

In the networking and communications infrastructure area, our strategy is to deliver both system-level communications building blocks at various levels of integration and component-level silicon building blocks for networking and communications systems. We have made acquisitions and expect to make additional acquisitions to grow the networking and communications areas. The network communications silicon and network connectivity products from the Network Communications Group face competition from both established and emerging companies. The competitors in these areas use aggressive product and acquisition plans in efforts to achieve leading-edge market positions. The Communications Products Group operating segment supports initiatives to deliver the system-level communications products directed at service providers running e-Business data centers. The Communications Products Group focuses on selling its Intel NetStructure products to OEM customers. The Communications Products Group also provides component-level products for converged voice and data communications systems for the telecommunications industry. These products compete in the small and mid-sized enterprise market segments with established products and leading-edge Internet communications systems and server products. We cannot predict whether our networking and communications products will continue to compete successfully with products from existing competitors or products from new entrants to these market segments.

In the cellular wireless communications business, our strategy is to deliver feature-rich, enhanced flash memory products and high-speed processors for handheld wireless devices that require high performance and low power. In supplying these products, our Wireless Communications and Computing Group faces competition from established companies in

the flash memory, applications processor and baseband chipset market segments.

RESEARCH AND DEVELOPMENT

Our competitive position has developed to a large extent because of our emphasis on research and development. This emphasis has enabled us to deliver leading-edge technology and has permitted our customers to commit to the use of these new products in the development of their own products. Our research and development activities are directed toward developing new products, hardware technologies and manufacturing processes, as well as improving existing products and lowering costs.

A substantial majority of the design and development of components and other products is performed in the United States at our facilities in California, Oregon, Arizona and Washington. Outside the United States, we have product development facilities at various locations, including Israel, Denmark and Malaysia. We also maintain research and development facilities dedicated to improving manufacturing processes in Arizona, California and Oregon.

In 2000, we shipped thousands of prototype processors based on the IA-64 architecture for high-end servers, under the Itanium brand, and began to ship processors for systems used by information technology end users in pilot installations. We expect the release of production systems during 2001. The Itanium processor is built on the 0.18-micron process technology. During 2000, approximately half of our microprocessor research and development budget was spent on initiatives related to the server and workstation market segment.

In addition to microprocessor and chipset research and development, we have research and development initiatives in wireless devices, networking and communications products, connected peripherals and other areas. These research and development initiatives include projects surrounding the Intel XScale micro-architecture for wireless devices and the Intel IXA architecture for networking and communications products. We have also acquired ongoing research and development activities in these areas with businesses acquired in 2000.

Our expenditures for research and development were $3,897 million in fiscal year 2000, $3,111 million in fiscal year 1999 and $2,509 million in fiscal year 1998. These amounts exclude charges for purchased in-process research and development related to acquisitions of $109 million for fiscal year 2000, $392 million for fiscal year 1999 and $165 million for fiscal year 1998. At December 2000, we had approximately 20,500 employees engaged in research and development. The success of our research and development activities is dependent upon competitive circumstances as well as our ability to bring new products to market in each computing market segment and in our other businesses in a timely and cost-effective manner.

ACQUISITIONS AND STRATEGIC INVESTMENTS

During 2000, we acquired 16 businesses for more than $2.7 billion, augmenting our capabilities in a number of strategic areas. The companies acquired included Ambient, GIGA, Picazo, Basis, Trillium and Ziatech. These acquisitions are discussed under the "Products" heading in Part I, Item 1 of this Form 10-K in connection with each related business group.

Under our Intel Capital program, we also make equity investments to further our strategic objectives and to support our key business initiatives in the areas of desktop and mobile platforms, server platforms, networking and communications, and Internet services. We want to stimulate growth in computing, communications and the Internet, and to grow the total information infrastructure, in order to create and expand markets for our products. This strategic investment program helps advance our overall mission of being a leading provider of key building blocks to the Internet economy. While financial returns are not our primary goal, our strategic investment program seeks to invest in companies that can succeed and have an impact on their market segment. When the strategic objectives of an investment have been achieved, or if the investment diverges from our strategic objectives, we may decide to dispose of the investment. As of year-end 2000, our strategic equity portfolio was valued

at approximately $3.7 billion, including marketable investments at their market value and non-marketable investments at cost.

INTELLECTUAL PROPERTY AND LICENSING

Intellectual property rights that apply to our various products include patents, copyrights, trade secrets, trademarks and maskwork rights. Intel has established an active program to protect its investment in technology by enforcing its intellectual property rights. We do not intend to license our intellectual property rights broadly unless we can obtain adequate consideration. We also refer to information appearing under the heading "Competition" in Part I, Item 1 of this Form 10-K.

We have filed and obtained a number of patents in the United States and abroad, and we have entered into patent cross-license agreements with many of our major competitors and other parties. While our intellectual property rights are important to our success, our business as a whole is not materially dependent upon any particular patent or license. We and other companies in the computer, telecommunications and related high-technology fields typically apply for and receive, in the aggregate, thousands of patents annually in the United States and other countries. In addition, because of the fast pace of innovation and product development, our products are often obsolete before the patents related to them expire. As a result, we believe that the duration of the applicable patents is adequate relative to the expected lives of our products.

We protect many of our computer programs by copyrighting them. We have registered numerous copyrights with the United States Copyright Office. The ability to protect or copyright software in some foreign jurisdictions is not clear. However, it is our policy to require customers to obtain a software license contract before we provide them with certain computer programs. Certain components contain embedded computer programs, and we have also obtained copyright protection for some of these programs. In addition, we have obtained protection for the maskworks for a number of our components under the Chip Protection Act of 1984.

We have obtained certain trademarks and trade names for our products to distinguish genuine Intel products from our competitors' products, and we are currently engaged in a cooperative program with OEMs to identify with the Intel Inside® logo certain personal computers containing genuine Intel microprocessors. We maintain certain details about our processes, products and strategies as trade secrets.

Like many companies in the semiconductor and other high-technology industries, we have from time to time been notified of claims that we may be infringing certain intellectual property rights of others. These claims have been referred to counsel, and they are in various stages of evaluation and negotiation. If it appears necessary or desirable, we may seek licenses for these intellectual property rights. We can give no assurance that licenses will be offered by all claimants, that the terms of any offered licenses will be acceptable to us or that in all cases the dispute will be resolved without litigation, which may be time consuming and expensive, and may result in injunctive relief or the payment of damages by us. We also refer to the information appearing under the heading "Legal Proceedings" in Part I, Item 3 of this Form 10-K.

COMPLIANCE WITH ENVIRONMENTAL REGULATIONS

To our present knowledge, compliance with federal, state and local provisions enacted or adopted for protection of the environment has had no material effect upon our operations. Reference is made to the information appearing under the heading "Legal Proceedings" in Part I, Item 3 of this Form 10-K.

EXECUTIVE OFFICERS

The following sets forth certain information with regard to executive officers of Intel (ages are as of December 30, 2000):

Craig R. Barrett (age 61) has been a director of Intel since 1992, Chief Executive Officer since 1998 and President since 1997. Prior to that, Dr. Barrett was Chief Operating Officer from 1993 to 1998 and Executive Vice President from 1990 to 1997.

Andrew S. Grove (age 64) has been a director of Intel since 1974 and Chairman of the Board since 1997. Dr. Grove was Chief Executive Officer from 1987 to 1998 and President from 1979 to 1997.

Gordon E. Moore (age 71) has been a director of Intel since 1968 and Chairman Emeritus of the Board since 1997. Prior to that, Dr. Moore was Chairman of the Board from 1979 to 1997.

Leslie L. Vadasz (age 64) has been a director of Intel since 1988 and Executive Vice President and President, Intel Capital, since January 2000. Prior to that, Mr. Vadasz was Senior Vice President and Director of Corporate Business Development from 1991 to January 2000.

Paul S. Otellini (age 50) has been Executive Vice President and General Manager, Intel Architecture Group, since 1998. Prior to that, Mr. Otellini was Executive Vice President and Director, Sales and Marketing Group, from 1996 to 1998, and Senior Vice President and Director, Sales and Marketing Group, from 1994 to 1996.

Gerhard H. Parker (age 57) has been Executive Vice President and General Manager, New Business Group, since 1998. Prior to that, Dr. Parker was Executive Vice President and General Manager, Technology and Manufacturing Group, from 1996 to 1998, and Senior Vice President and General Manager, Technology and Manufacturing Group, from 1992 to 1996.

Andy D. Bryant (age 50) has been Executive Vice President and Chief Financial and Enterprise Services Officer since January 2001, and Senior Vice President and Chief Financial and Enterprise Services Officer from 1999 to January 2001. Prior to that, Mr. Bryant was Senior Vice President and Chief Financial Officer for 1999 and Vice President and Chief Financial Officer from 1994 to 1999.

Sean M. Maloney (age 44) has been Executive Vice President and Director, Sales and Marketing Group, since January 2001, Senior Vice President and Director, Sales and Marketing Group, from 1999 to January 2001, and Vice President and Director, Sales and Marketing Group, from 1998 to 1999. Prior to that, Mr. Maloney was Vice President, Sales, and General Manager, Asia-Pacific Operations, from 1995 to 1998.

Michael R. Splinter (age 50) has been Executive Vice President and General Manager, Technology and Manufacturing Group, since January 2001; Senior Vice President and General Manager, Technology and Manufacturing Group, from 1999 to January 2001; and Vice President and General Manager, Technology and Manufacturing Group, from 1998 to 1999. Prior to that, Mr. Splinter was Vice President and Assistant General Manager, Technology and Manufacturing Group, from 1996 to 1998.

Albert Y. C. Yu (age 59) has been Senior Vice President and General Manager, Optoelectronics, since October 2000. Prior to that, Mr. Yu was Senior Vice President and General Manager, Microprocessor Products Group, from 1993 to October 2000.

F. Thomas Dunlap, Jr. (age 49) has been Senior Vice President, General Counsel and Secretary since January 2001 and Vice President, General Counsel and Secretary from 1987 to January 2001.

Arvind Sodhani (age 46) has been Vice President and Treasurer since 1990.

ITEM 2. PROPERTIES

At December 30, 2000, we owned the major facilities described below:

No. of Bldgs.	Location	Total Sq. Ft.	Use
107	United States	21,223,000	Executive and administrative offices, wafer fabrication, research and development, sales and marketing, computer and service functions, e-Commerce data center services, boards and systems manufacturing, and warehousing.
8	Ireland	1,982,000	Wafer fabrication, warehousing and administrative offices.
12	Malaysia (A)	1,781,000	Components assembly and testing, boards and systems manufacturing, research and development, warehousing and administrative offices.
11	Israel (B)	1,599,000	Wafer fabrication, research and development, warehousing and administrative offices.
6	Philippines (C)	1,364,000	Components assembly and testing, warehousing and administrative offices.
3	Costa Rica	735,000	Components assembly and testing, warehousing and administrative offices.
5	Puerto Rico	426,000	Boards manufacturing, warehousing and administrative offices.
1	People's Republic of China (D)	187,000	Components assembly and testing and administrative offices.
1	United Kingdom	175,000	Sales and marketing and administrative offices.
3	Japan	167,000	Sales and marketing and administrative offices.

1	Germany	80,000	Sales and marketing and administrative offices.

As of December 30, 2000, we also leased 61 major facilities in the United States totaling approximately 2,586,000 square feet, and 47 facilities in other countries totaling approximately 1,440,000 square feet. Leased facilities increased during 2000, primarily due to overall growth of operations. These leases expire at varying dates through 2013 and include renewals at our option. We believe that our existing facilities are suitable and adequate for our present purposes, and that the productive capacity in such facilities is substantially being utilized; however, in January 2001, we announced that we would phase out our manufacturing operations in Puerto Rico during the first half of 2001. We also have approximately 3.4 million square feet of building space in the United States and approximately 1.5 million square feet of building space in various international sites under various stages of construction for manufacturing and administrative purposes.

We do not identify or allocate assets or depreciation by operating segment. Information on net property, plant and equipment by country under the heading "Operating segment and geographic information" on page 33 of the Registrant's 2000 Annual Report to Stockholders, is incorporated by reference.

(A) Leases on portions of the land used for these facilities expire in 2003 through 2057.

(B) Lease on a portion of the land used for these facilities expires in 2039.

(C) Leases on portions of the land used for these facilities expire in 2008 through 2046.

(D) Lease on a portion of the land used for these facilities expires in 2046.

ITEM 3. LEGAL PROCEEDINGS

A. LITIGATION

Intergraph Corporation v. Intel
U.S. District Court, Northern District of Alabama, Northeastern Division (CV-97-N-3023-NE)

In November 1997, Intergraph Corporation filed suit in Federal District Court in Alabama, generally alleging that Intel attempted to coerce Intergraph into relinquishing certain patent rights. The suit alleges that Intel infringes five Intergraph microprocessor-related patents and includes alleged violations of antitrust laws and various state law claims. The suit seeks injunctive relief, damages and prejudgment interest, and further alleges that Intel's infringement is willful and that any damages awarded should be trebled. Intergraph's expert witness has claimed that Intergraph is entitled to damages of approximately $2.2 billion for Intel's alleged patent infringement, $500 million for the alleged antitrust violations and an undetermined amount for alleged state law violations. Intel believes that it does not infringe Intergraph's patents and believes those patents are invalid and unenforceable. Intel has counterclaimed that the Intergraph patents are invalid and further alleges infringement of seven Intel patents, breach of contract and misappropriation of trade secrets. In October 1999, the court reconsidered an earlier adverse ruling and granted Intel's motion for summary judgment that the Intergraph patents are licensed to Intel, and dismissed all of Intergraph's patent infringement claims with prejudice. This ruling has been reversed by the Court of Appeals for the Federal Circuit, and as a result, the patent issues are returned to the District Court. In March 2000, the District Court granted Intel's motion for summary judgment on Intergraph's federal antitrust claims, and in April 2000, Intergraph appealed this ruling. Intergraph's state law claims remain at issue in the trial court. The company disputes Intergraph's claims and intends to defend the lawsuit vigorously.

B. ENVIRONMENTAL PROCEEDINGS

We have been named to the California and U.S. Superfund lists for three of our sites and have completed, along with two other companies, a Remedial Investigation/Feasibility study with the U.S. Environmental Protection Agency (EPA) to evaluate the groundwater in areas adjacent to one of our former sites. The EPA has issued a Record of Decision with respect to a groundwater cleanup plan at that site, including expected costs to complete. Under the California and U.S. Superfund statutes, liability for cleanup of this site and the adjacent area is joint and several. We, however, have reached agreement with those same two companies that significantly limits our liabilities under the proposed cleanup plan. Also, we have completed extensive studies at our other sites and are engaged in cleanup at several of these sites. In the opinion of management, including internal counsel, the potential losses to us in excess of amounts already accrued arising out of these matters would not have a material adverse effect on our financial position or overall trends in results of operations, even if joint and several liability were to be assessed.

We are currently party to various legal proceedings, including those noted above. While management, including internal counsel, currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the net income of the period in which the ruling occurs. The estimate of the potential impact on our financial position or overall results of operations for the above legal proceedings could change in the future.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II **

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The information regarding market, market price range and dividend information appearing under "Financial information by quarter (unaudited)" on page 35 of the company's 2000 Annual Report to Stockholders is incorporated by reference.

(b)

As of February 23, 2001, there were approximately 258,000 registered holders of record of Intel's common stock.

(c)

Unregistered sales of equity securities.

In connection with the acquisition of Level One Communications, Incorporated, Intel assumed Level One's obligations from its prior acquisition of SF Telecom, Inc. In complete satisfaction of these obligations to the former stockholders of SF Telecom, Inc., Intel issued 23,685 shares of Intel common stock to the former stockholders of SF Telecom in November 2000. This transaction was made, without general solicitation or advertising, pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933. The company believes that each purchaser (i) was an accredited investor or a sophisticated investor (either alone or through its representative) with access to all relevant information necessary, (ii) was acquiring the Intel common stock solely for his or her own account and for investment, and (iii) does not intend to offer, sell or dispose of such shares except in compliance with the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The information regarding selected financial data for the fiscal years 1996 through 2000, under the heading "Financial summary" on page 17 of the company's 2000 Annual Report to Stockholders, is incorporated by reference.

In addition, the ratios of earnings to fixed charges for each of the five years in the period ended December 30, 2000 are as follows:

Fiscal year				
1996	**1997**	**1998**	**1999**	**2000**
108x	206x	167x	166x	171x

Fixed charges consist of interest expense and the estimated interest component of rent expense.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information appearing under the heading "Management's discussion and analysis of financial condition and results of operations" on pages 36 through 41 of our 2000 Annual Report to Stockholders is incorporated by reference.

In January 2001, we announced that we entered into a definitive agreement to acquire Xircom, Inc and in March we successfully completed the tender offer. Xircom is a supplier of PC cards and other products used to connect mobile computing devices to corporate networks and the Internet.

In February 2001, we announced that we entered into a definitive agreement to acquire privately held VxTel Inc. for approximately $550 million in a cash transaction. VxTel develops Voice-over-Packet products that deliver high-quality voice and data communications over next-generation optical networks. The completion of this acquisition is subject to regulatory review and normal closing conditions.

Status of Outlook and related risk factor statements

We expect that our corporate representatives will meet privately from time to time with investors, the media, investment analysts and others. At these meetings we may reiterate the Outlook as published in our Outlook Release of March 8, 2001, including portions that are repeated or incorporated by reference into this annual report. At the same time, we will keep our Outlook Release and Outlook publicly available on our Web site (www.intc.com). Prior to the start of the Quiet Period (described below), the public can continue to rely on the Outlook on the Web site as still being our current expectations on matters covered, unless we publish a notice stating otherwise.

Beginning March 10, 2001, we will observe a "Quiet Period" when we no longer publish, or update, Outlook as our current expectations and Intel representatives will not comment concerning Outlook or Intel's financial results and expectations. The Quiet Period will extend until the day when our next quarterly Earnings Release is published, presently scheduled for April 17, 2001.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appearing under the subheading "Financial market risks" under the heading "Management's discussion and analysis of financial condition and results of operations" on pages 38 and 39 of the company's 2000 Annual Report to Stockholders is incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated financial statements of Intel at December 30, 2000 and December 25, 1999, and for each of the three years in the period ended December 30, 2000 and the Report of Independent Auditors thereon, and the company's unaudited quarterly financial data for the two-year period ended December 30, 2000 are incorporated by reference from the company's 2000 Annual Report to Stockholders, on pages 17 through 35.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III **

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding Directors and Executive Officers appearing under the heading "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the company's proxy statement relating to its 2001 Annual Meeting of Stockholders (the "2001 Proxy Statement") is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the headings "Directors' Compensation," "Employment Contracts and Change of Control Arrangements," "Compensation Committee Report on Executive Compensation," "Stock Price Performance Graph," and "Executive Compensation" of the 2001 Proxy Statement is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing in the 2001 Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not applicable.

PART IV **

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements
The financial statements listed in the accompanying index to financial statements and financial statement schedules are filed or incorporated by reference as part of this annual report.

2. Financial Statement Schedule
The financial statement schedule listed in the accompanying index to financial statements and financial statement schedules is filed as part of this annual report.

3. Exhibits
The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this annual report.

(b) Reports on Form 8-K
On October 20, 2000, Intel filed a report on Form 8-K relating to financial information for Intel Corporation for the quarter ended September 30, 2000 and forward-looking statements relating to the fourth quarter of 2000 and the second half of 2000, as presented in a press release of October 17, 2000.

On December 8, 2000, Intel filed a report on Form 8-K relating to an announcement regarding an update to forward-looking statements relating to 2000 and the fourth quarter of 2000 as presented in a press release of December 7, 2000.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
(Item 14 (a))

Schedules other than the one listed above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto.

The consolidated financial statements listed in the above index, which are included in our 2000 Annual Report to Stockholders, are incorporated by reference. With the exception of the pages listed in the above index and the portions of such report referred to in Items 1, 5, 6, 7, 7A and 8 of this Form 10-K, the 2000 Annual Report to Stockholders is not to be deemed filed as part of this report.

INTEL CORPORATION

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

December 26, 1998, December 25, 1999 and December 30, 2000
(In Millions)

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions (A)	Balance at End of Year
1998				
Allowance for Doubtful Receivables	$ 65	$ 14	$ 17	$ 62
1999				
Allowance for Doubtful Receivables	$ 62	$ 17	$ 12	$ 67
2000				
Allowance for Doubtful Receivables	$ 67	$ 33	$ 16	$ 84

(A)
Uncollectible accounts written off, net of recoveries.

INDEX TO EXHIBITS

(Item 14(a))

	Description
3.1	Intel Corporation Restated Certificate of Incorporation dated May 11, 1993, Certificate of Amendment to the Restated Certificate of Incorporation dated June 2, 1997 (incorporated by reference to Exhibit 3.1 of Registrant's Form 10-K as filed on March 27, 1998) and Certificate of Amendment to the Restated Certificate of Incorporation dated May 18, 2000 (incorporated by reference to Exhibit 3.1 of Registrant's Form 10-Q as filed on August 14, 2000).
3.2	Intel Corporation Bylaws as amended (incorporated by reference to Exhibit 3.1 of Registrant's Form 10-Q for the quarter ended June 26, 1999 as filed on August 2, 1999).
4.1	Agreement to Provide Instruments Defining the Rights of Security Holders (incorporated by reference to Exhibit 4.1 of Registrant's Form 10-K as filed on March 28, 1986).
10.1*	Intel Corporation 1984 Stock Option Plan as amended and restated, effective July 16, 1997 (incorporated by reference to Exhibit 10.1 of Registrant's Form 10-Q for the quarter ended June 27, 1998 as filed on August 11, 1998).
10.2*	Intel Corporation 1988 Executive Long-Term Stock Option Plan as amended and restated, effective July 16, 1997 (incorporated by reference to Exhibit 10.2 of Registrant's Form 10-Q for the quarter ended June 27, 1998 as filed on August 11, 1998).
10.3*	Intel Corporation Executive Officer Bonus Plan as amended and restated effective January 1, 2000 (incorporated by reference to Exhibit A of Registrant's proxy statement on Schedule 14A as filed on April 12, 2000).
10.4*	Intel Corporation Sheltered Employee Retirement Plan Plus, as amended and restated effective July 15, 1996 (incorporated by reference to Exhibit 4.1.1 of Registrant's Post-Effective Amendment No. 1 to Registration Statement on Form S-8 as filed on July 17, 1996).
10.5*	Special Deferred Compensation Plan (incorporated by reference to Exhibit 4.1 of Registrant's Registration Statement on Form S-8 as filed on February 2, 1998).
10.6*	Intel Corporation Deferral Plan for Outside Directors, effective July 1, 1998 (incorporated by reference to Exhibit 10.6 of the Registrant's Form 10-K as filed on March 26, 1999).
12.	Statement Setting Forth the Computation of Ratios of Earnings to Fixed Charges.
13.	Portions of the Annual Report to Stockholders for the fiscal year ended December 30, 2000, as specified elsewhere in this document, are expressly incorporated by reference herein.

21. Intel subsidiaries.

23. Consent of Ernst & Young LLP, independent auditors.

*

Compensation plans or arrangements in which directors and 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/ F. THOMAS DUNLAP, JR.

F. Thomas Dunlap, Jr.
Senior Vice President, General Counsel
and Secretary
March 12, 2001

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
President, Chief Executive Officer and Director, Principal Executive Officer
March 12, 2001

/s/ GORDON E. MOORE

Gordon E. Moore
Chairman Emeritus of the Board and Director
March 12, 2001

/s/ JOHN P. BROWNE

John P. Browne
Director
March 12, 2001

/s/ DAVID S. POTTRUCK

David S. Pottruck
Director
March 12, 2001

/s/ ANDY D. BRYANT

Andy D. Bryant
Executive Vice President, Chief Financial Officer and Principal Accounting Officer
March 12, 2001

/s/ JANE E. SHAW

Jane E. Shaw
Director
March 12, 2001

/s/ WINSTON H. CHEN

Winston H. Chen
Director
March 12, 2001

/s/ LESLIE L. VADASZ

Leslie L. Vadasz
Executive Vice President Director
March 12, 2001

/s/ ANDREW S. GROVE

Andrew S. Grove
Chairman of the Board and Director
March 12, 2001

/s/ DAVID B. YOFFIE

David B. Yoffie
Director
March 12, 2001

/s/ D. JAMES GUZY

D. James Guzy
Director
March 12, 2001

/s/ CHARLES E. YOUNG

Charles E. Young
Director
March 12, 2001

Exhibit 12

INTEL CORPORATION
STATEMENT SETTING FORTH THE COMPUTATION
OF RATIOS OF EARNINGS TO FIXED CHARGES FOR INTEL CORPORATION
(In millions, except ratios)

	Years Ended				
	Dec. 28, 1996	Dec. 27, 1997	Dec. 26, 1998	Dec. 25, 1999	Dec. 30, 2000
Income before taxes	$ 7,934	$ 10,659	$ 9,137	$ 11,228	$ 15,141
Add—Fixed charges net of capitalized interest	41	43	49	63	82
Income before taxes and fixed charges (net of capitalized interest)	$ 7,975	$ 10,702	$ 9,186	$ 11,291	$ 15,223
Fixed charges:					
Interest	$ 25	$ 27	$ 34	$ 36	$ 35
Capitalized interest	33	9	6	5	7
Estimated interest component of rental expense	16	16	15	27	47
Total	$ 74	$ 52	$ 55	$ 68	$ 89
Ratio of earnings before taxes and fixed charges, to fixed charges	108x	206x	167x	166x	171x

Financial summary

Ten years ended December 30, 2000

(In millions—except employees and per share amounts)	Employees at year-end (in thousands)	Net investment in property, plant & equipment	Total assets	Long-term debt & put warrants	Stockholders' equity	Additions to property, plant & equipment†	Weighted average diluted shares outstanding	Dividends declared per share	Dividends paid per share
2000	86.1	$ 15,013	$ 47,945	$ 707	$ 37,322	$ 6,674	6,986	$ .070	$ .070
1999	70.2	$ 11,715	$ 43,849	$ 1,085	$ 32,535	$ 3,403	6,940	$ .055	$ .055
1998	64.5	$ 11,609	$ 31,471	$ 903	$ 23,377	$ 4,032	7,035	$ .025	$ .033
1997	63.7	$ 10,666	$ 28,880	$ 2,489	$ 19,295	$ 4,501	7,179	$ .029	$ .028
1996	48.5	$ 8,487	$ 23,735	$ 1,003	$ 16,872	$ 3,024	7,101	$ .024	$ .023
1995	41.6	$ 7,471	$ 17,504	$ 1,125	$ 12,140	$ 3,550	7,072	$ .019	$ .018
1994	32.6	$ 5,367	$ 13,816	$ 1,136	$ 9,267	$ 2,441	6,992	$ .014	$ .014
1993	29.5	$ 3,996	$ 11,344	$ 1,114	$ 7,500	$ 1,933	7,056	$ .013	$ .013
1992	25.8	$ 2,816	$ 8,089	$ 622	$ 5,445	$ 1,228	6,872	$ .006	$ .003
1991	24.6	$ 2,163	$ 6,292	$ 503	$ 4,418	$ 948	6,688	—	—

(In millions—except per share amounts)	Net revenues	Cost of sales	Research & development	Purchased in-process research & development	Amortization of goodwill & acquisition-related intangibles & costs	Operating income	Net income	Basic earnings per share	Diluted earnings per share
2000	$ 33,726	$ 12,650	$ 3,897	$ 109	$ 1,586	$ 10,395	$ 10,535	$ 1.57	$ 1.51
1999	$ 29,389	$ 11,836	$ 3,111	$ 392	$ 411	$ 9,767	$ 7,314	$ 1.10	$ 1.05
1998	$ 26,273	$ 12,088	$ 2,509	$ 165	$ 56	$ 8,379	$ 6,068	$ .91	$ .86
1997	$ 25,070	$ 9,945	$ 2,347	—	—	$ 9,887	$ 6,945	$ 1.06	$ .97
1996	$ 20,847	$ 9,164	$ 1,808	—	—	$ 7,553	$ 5,157	$ .78	$ .73
1995	$ 16,202	$ 7,811	$ 1,296	—	—	$ 5,252	$ 3,566	$ .54	$ .50
1994	$ 11,521	$ 5,576	$ 1,111	—	—	$ 3,387	$ 2,288	$ .34	$ .33
1993	$ 8,782	$ 3,252	$ 970	—	—	$ 3,392	$ 2,295	$ .34	$ .33
1992	$ 5,844	$ 2,557	$ 780	—	—	$ 1,490	$ 1,067	$ .16	$ .16
1991	$ 4,779	$ 2,316	$ 618	—	—	$ 1,080	$ 819	$ .13	$ .12

Share and per share amounts shown have been adjusted for stock splits through 2000.

† *Additions to property, plant and equipment in 1998 include $475 million for capital assets acquired from Digital Equipment Corporation.*

Consolidated statements of income

Three years ended December 30, 2000 (In millions—except per share amounts)	2000	1999	1998
Net revenues	**$ 33,726**	**$ 29,389**	**$ 26,273**
Cost of sales	12,650	11,836	12,088
Research and development	3,897	3,111	2,509
Marketing, general and administrative	5,089	3,872	3,076
Amortization of goodwill and other acquisition-related intangibles and costs	1,586	411	56
Purchased in-process research and development	109	392	165
Operating costs and expenses	23,331	19,622	17,894
Operating income	**10,395**	**9,767**	**8,379**
Gains on investments, net	3,759	883	185
Interest and other, net	987	578	573
Income before taxes	**15,141**	**11,228**	**9,137**
Provision for taxes	4,606	3,914	3,069
Net income	**$ 10,535**	**$ 7,314**	**$ 6,068**
Basic earnings per common share	**$ 1.57**	**$ 1.10**	**$ 0.91**
Diluted earnings per common share	**$ 1.51**	**$ 1.05**	**$ 0.86**
Weighted average common shares outstanding	**6,709**	**6,648**	**6,672**
Weighted average common shares outstanding, assuming dilution	**6,986**	**6,940**	**7,035**

See accompanying notes.

Consolidated balance sheets

December 30, 2000 and December 25, 1999 (In millions—except par value)	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	$ 2,976	$ 3,695
Short-term investments	10,497	7,705
Trading assets	350	388
Accounts receivable, net of allowance for doubtful accounts of $84 ($67 in 1999)	4,129	3,700
Inventories	2,241	1,478
Deferred tax assets	721	673
Other current assets	236	180
Total current assets	**21,150**	**17,819**
Property, plant and equipment:		
Land and buildings	7,416	7,246
Machinery and equipment	15,994	14,851
Construction in progress	4,843	1,460
	28,253	23,557
Less accumulated depreciation	13,240	11,842
Property, plant and equipment, net	**15,013**	**11,715**
Marketable strategic equity securities	**1,915**	**7,121**
Other long-term investments	**1,797**	**790**
Goodwill and other acquisition-related intangibles, net	**5,941**	**4,934**
Other assets	**2,129**	**1,470**
Total assets	**$ 47,945**	**$ 43,849**
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	$ 378	$ 230
Accounts payable	2,387	1,370
Accrued compensation and benefits	1,696	1,454
Deferred income on shipments to distributors	674	609
Accrued advertising	782	582
Other accrued liabilities	1,440	1,159
Income taxes payable	1,293	1,695
Total current liabilities	**8,650**	**7,099**
Long-term debt	**707**	**955**
Deferred tax liabilities	**1,266**	**3,130**
Put warrants	**—**	**130**
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 50 shares authorized; none issued	—	—
Common stock, $0.001 par value, 10,000 shares authorized; 6,721 issued and outstanding (6,669 in 1999) and capital in excess of par value	8,486	7,316
Acquisition-related unearned stock compensation	(97)	—
Accumulated other comprehensive income	195	3,791
Retained earnings	28,738	21,428
Total stockholders' equity	**37,322**	**32,535**
Total liabilities and stockholders' equity	**$ 47,945**	**$ 43,849**

See accompanying notes.

Consolidated statements of cash flows

Three years ended December 30, 2000 (In millions)	2000	1999	1998
Cash and cash equivalents, beginning of year	**$ 3,695**	**$ 2,038**	**$ 4,102**

Cash flows provided by (used for) operating activities:			
Net income	10,535	7,314	6,068
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation	3,249	3,186	2,807
Amortization of goodwill and other acquisition-related intangibles and costs	1,586	411	56
Purchased in-process research and development	109	392	165
Gains on investments, net	(3,759)	(883)	(185)
Gain on assets contributed to Convera	(117)	—	—
Net loss on retirements of property, plant and equipment	139	193	282
Deferred taxes	(130)	(219)	77
Changes in assets and liabilities:			
Accounts receivable	(384)	153	(38)
Inventories	(731)	169	167
Accounts payable	978	79	(180)
Accrued compensation and benefits	231	127	17
Income taxes payable	(362)	726	(211)
Tax benefit from employee stock plans	887	506	415
Other assets and liabilities	596	(20)	7
Total adjustments	2,292	4,820	3,379
Net cash provided by operating activities	**12,827**	**12,134**	**9,447**
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(6,674)	(3,403)	(3,557)
Acquisitions, net of cash acquired	(2,317)	(2,979)	(906)
Purchases of available-for-sale investments	(17,188)	(7,055)	(10,925)
Maturities and sales of available-for-sale investments	17,124	7,987	8,882
Other investing activities	(980)	(799)	(256)
Net cash used for investing activities	**(10,035)**	**(6,249)**	**(6,762)**
Cash flows provided by (used for) financing activities:			
Increase (decrease) in short-term debt, net	138	69	(83)
Additions to long-term debt	77	118	169
Retirement of long-term debt	(46)	—	—
Proceeds from sales of shares through employee stock plans and other	797	543	507
Proceeds from exercise of 1998 step-up warrants	—	—	1,620
Proceeds from sales of put warrants	—	20	40
Repurchase and retirement of common stock	(4,007)	(4,612)	(6,785)
Payment of dividends to stockholders	(470)	(366)	(217)
Net cash used for financing activities	**(3,511)**	**(4,228)**	**(4,749)**
Net increase (decrease) in cash and cash equivalents	**(719)**	**1,657**	**(2,064)**
Cash and cash equivalents, end of year	**$ 2,976**	**$ 3,695**	**$ 2,038**
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 43	$ 40	$ 40
Income taxes	$ 4,209	$ 2,899	$ 2,784

See accompanying notes.

Consolidated statements of stockholders' equity

Three years ended December 30, 2000 (In millions—except per share amounts)	Common stock and capital in excess of par value: Number of shares	Common stock and capital in excess of par value: Amount	Acquisition- related unearned stock compensation	Accumulated other comprehensive income	Retained earnings	Total
Balance at December 27, 1997	**6,512**	**$ 3,311**	**$ —**	**$ 58**	**$ 15,926**	**$ 19,295**
Components of comprehensive income:						
Net income	—	—	—	—	6,068	6,068
Change in unrealized gain on available-for-sale investments, net of tax	—	—	—	545	—	545
Total comprehensive income						6,613
Proceeds from sales of shares through employee stock plans, tax benefit of $415 and other	133	922	—	—	—	922
Proceeds from exercise of 1998 step-up warrants	310	1,620	—	—	—	1,620

Proceeds from sales of put warrants	—	40	—	—	—	40
Reclassification of put warrant obligation, net	—	53	—	—	588	641
Repurchase and retirement of common stock	(324)	(1,124)	—	—	(4,462)	(5,586)
Cash dividends declared ($0.025 per share)	—	—	—	—	(168)	(168)
Balance at December 26, 1998	**6,631**	**4,822**	**—**	**603**	**17,952**	**23,377**
Components of comprehensive income:						
Net income	—	—	—	—	7,314	7,314
Change in unrealized gain on available-for-sale investments, net of tax	—	—	—	3,188	—	3,188
Total comprehensive income						10,502
Proceeds from sales of shares through employee stock plans, tax benefit of $506 and other	112	1,049	—	—	—	1,049
Proceeds from sales of put warrants	—	20	—	—	—	20
Reclassification of put warrant obligation, net	—	7	—	—	64	71
Repurchase and retirement of common stock	(143)	(1,076)	—	—	(3,536)	(4,612)
Issuance of common stock and assumption of stock options in connection with acquisitions	69	2,494	—	—	—	2,494
Cash dividends declared ($0.055 per share)	—	—	—	—	(366)	(366)
Balance at December 25, 1999	**6,669**	**7,316**	**—**	**3,791**	**21,428**	**32,535**
Components of comprehensive income:						
Net income	—	—	—	—	10,535	10,535
Change in unrealized gain on available-for-sale investments, net of tax	—	—	—	(3,596)	—	(3,596)
Total comprehensive income						6,939
Proceeds from sales of shares through employee stock plans, tax benefit of $887 and other	116	1,687	—	—	(3)	1,684
Reclassification of put warrant obligation, net	—	35	—	—	95	130
Issuance of common stock and assumption of stock options in connection with acquisitions	3	401	(123)	—	—	278
Amortization of acquisition-related unearned stock compensation	—	—	26	—	—	26
Conversion of subordinated notes	7	207	—	—	—	207
Repurchase and retirement of common stock	(74)	(1,160)	—	—	(2,847)	(4,007)
Cash dividends declared ($0.070 per share)	—	—	—	—	(470)	(470)
Balance at December 30, 2000	**6,721**	**$ 8,486**	**$ (97)**	**$ 195**	**$ 28,738**	**$ 37,322**

See accompanying notes.

Notes to consolidated financial statements

Accounting policies

Fiscal year Intel Corporation has a fiscal year that ends on the last Saturday in December. Fiscal year 2000, a 53-week year, ended on December 30, 2000. Fiscal years 1999 and 1998, each 52-week years, ended on December 25 and 26, respectively. The next 53-week year will end on December 31, 2005.

Basis of presentation The consolidated financial statements include the accounts of Intel and its wholly owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Accounts denominated in foreign currencies have been remeasured using the U.S. dollar as the functional currency.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investments Highly liquid debt securities with insignificant interest rate risk and with original maturities of three months or less are classified as cash and cash equivalents. Debt securities with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments. Debt securities with remaining maturities greater than one year are classified as other long-term investments. The company's policy is to protect the value of its fixed income investment portfolio and to minimize principal risk by earning returns based on current interest rates.

The company enters into certain equity investments for the promotion of business and strategic objectives, and typically does not attempt to reduce or eliminate the inherent market risks on these investments. The marketable portion of these strategic investments is classified separately as marketable strategic equity securities. The non-marketable equity and other investments are included in other assets.

A substantial majority of the company's marketable investments are classified as available-for-sale as of the balance sheet date and are reported at fair value, with unrealized gains and losses, net of tax, recorded in stockholders' equity. The cost of securities sold is based on the specific identification method. Gains on investments, net include realized gains or losses on the sale or exchange of securities and declines in value, if any, judged to be other than temporary on available-for-sale securities and non-marketable investments. Non-marketable investments are recorded at the lower of cost or market. The company's proportionate share of income or losses from affiliated companies is accounted for on the equity method and is recorded in interest and other, net.

Trading assets The company maintains its trading asset portfolio to generate returns that offset changes in liabilities related to certain deferred compensation arrangements. The trading assets consist of marketable equity instruments and are stated at fair value. Both realized and unrealized gains and losses are included in interest and other, net and generally offset the change in the deferred compensation liability, which is also included in interest and other, net. Net gains (losses) on the trading asset portfolio were $(41) million, $44 million and $66 million in 2000, 1999 and 1998, respectively. The deferred compensation liabilities were $392 million and $384 million in 2000 and 1999, respectively, and are included in other accrued liabilities on the consolidated balance sheets.

Fair values of financial instruments Fair values of cash equivalents approximate cost due to the short period of time to maturity. Fair values of short-term investments, trading assets, marketable strategic equity securities, other long-term investments, non-marketable investments, short-term debt, long-term debt, swaps, currency forward contracts and options are based on quoted market prices or pricing models using current market rates. For certain non-marketable equity securities, fair value is estimated based on prices recently paid for shares in that company. The estimated fair values are not necessarily representative of the amounts that the company could realize in a current transaction.

Derivative financial instruments The company utilizes derivative financial instruments to reduce financial market risks. These instruments are used to hedge foreign currency, interest rate and certain equity market exposures of underlying assets, liabilities and other obligations. The company also uses derivatives to create synthetic instruments, for example, buying and selling put and call options on the same underlying security, to generate money market-like returns with a similar level of risk. The company does not use derivative financial instruments for speculative or trading purposes. The company's accounting policies for these instruments are based on whether they meet the company's criteria for designation as hedging transactions. The criteria the company uses for designating an instrument as a hedge include the instrument's effectiveness in risk reduction and one-to-one matching of derivative instruments to underlying transactions. Gains and losses on currency forward contracts, and options that are designated and effective as hedges of anticipated transactions, for which a firm commitment has been attained, are deferred and recognized in income in the same period that the underlying transactions are settled. Gains and losses on currency forward contracts, options and swaps that are designated and effective as hedges of existing transactions are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset. Gains and losses on any instruments not meeting the above criteria are recognized in income in the current period. If an underlying hedged transaction is terminated earlier than initially anticipated, the offsetting gain or loss on the related derivative instrument would be recognized in income in the same period. Subsequent gains or losses on the related derivative instrument would be recognized in income in each period until the instrument matures, is terminated or is sold. Income or expense on swaps is accrued as an adjustment to the yield of the related investments or debt they hedge.

Inventories Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates actual cost on a current average or first-in, first-out basis). Inventories at fiscal year-ends were as follows:

(In millions)	2000	1999
Raw materials	$ 384	$ 183
Work in process	1,057	755
Finished goods	800	540
Total	**$ 2,241**	**$ 1,478**

Property, plant and equipment Property, plant and equipment are stated at cost. Depreciation is computed for financial reporting purposes principally using the straight-line method over the following estimated useful lives: machinery and equipment, 2-4 years; buildings, 4-40 years. Reviews are regularly performed to determine whether facts and circumstances exist which indicate that the carrying amount of assets may not be recoverable. The company assesses the recoverability of its assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining life against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

Goodwill and other acquisition-related intangibles Goodwill is recorded when the consideration paid for acquisitions exceeds the fair value of identifiable net tangible and intangible assets acquired. Goodwill and other acquisition-related intangibles are amortized on a straight-line basis over the periods indicated below. Goodwill and other acquisition-related intangibles are reviewed for recoverability periodically or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount is compared to the undiscounted cash flows of the businesses acquired. Should the review indicate that these intangibles are not recoverable, their carrying amount would be reduced by the estimated shortfall of those cash flows. No impairment has been indicated to date.

Net goodwill and other acquisition-related intangibles at fiscal year-ends were as follows:

(In millions)	Life in years	2000	1999
Goodwill	2-6	$ 4,977	$ 4,124
Developed technology	3-6	779	612
Other intangibles	2-6	185	198
		$ 5,941	**$ 4,934**

Other intangibles include items such as trademarks, workforce-in-place and customer lists. The total balances presented above are net of total accumulated amortization of $2.0 billion and $471 million at December 30, 2000 and December 25, 1999, respectively.

Amortization of goodwill and other acquisition-related intangibles and costs was $1.6 billion for 2000. This includes $1.3 billion of amortization of goodwill and $248 million of amortization of other acquisition-related intangibles (a majority of which was related to developed technology). In addition, the total includes $26 million of amortization of acquisition-related stock compensation costs (see "Acquisition-related unearned stock compensation") and $2 million of amortization of other acquisition-related costs.

Revenue recognition The company generally recognizes net revenues upon the transfer of title. However, certain of the company's sales are made to distributors under agreements allowing price protection and/or right of return on merchandise unsold by the distributors. Because of frequent sales price reductions and rapid technological obsolescence in the industry, Intel defers recognition of revenues on shipments to distributors until the distributors sell the merchandise. Management believes that the company's revenue recognition policies are in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101).

Advertising Cooperative advertising obligations are accrued and the costs expensed at the same time the related revenues are recognized. All other advertising costs are expensed as incurred. Advertising expense was $2.0 billion, $1.7 billion and $1.3 billion in 2000, 1999 and 1998, respectively.

Interest Interest as well as gains and losses related to contractual agreements to hedge certain investment positions and debt (see "Derivative financial instruments") are recorded as net interest income or expense within interest and other, net.

Earnings per share The shares used in the computation of the company's basic and diluted earnings per common share are reconciled as follows:

(In millions)	2000	1999	1998
Weighted average common shares outstanding	**6,709**	**6,648**	**6,672**
Dilutive effect of:			
Employee stock options	272	289	318
Convertible notes	5	3	—
1998 step-up warrants	—	—	45
Weighted average common shares outstanding, assuming dilution	**6,986**	**6,940**	**7,035**

Weighted average common shares outstanding, assuming dilution, includes the incremental shares that would be issued upon the assumed exercise of stock options, as well as the assumed conversion of the convertible notes and the incremental shares for the step-up warrants, for the respective periods the notes and warrants were outstanding. Put warrants outstanding had no dilutive effect on diluted earnings per common share for the periods presented. For the three-year period ended December 30, 2000, certain of the company's stock options were excluded from the calculation of diluted earnings per share because they were antidilutive, but these options could be dilutive in the future. Net income for

---

the purpose of computing diluted earnings per common share was not materially affected by the assumed conversion of the convertible notes. (See "Long-term debt" under "Borrowings.")

Stock distribution On July 30, 2000, the company effected a two-for-one stock split in the form of a special stock distribution to stockholders of record as of July 2, 2000. As a result of the stock split in 2000, approximately $3 million was reclassified from retained earnings to common stock, representing the par value of the newly issued shares. On April 11, 1999, the company effected a two-for-one stock split in the form of a special stock distribution to stockholders of record as of March 23, 1999. All share, per share, common stock, stock option and warrant amounts herein have been restated to reflect the effects of these splits.

Reclassifications Certain amounts reported in previous years have been reclassified to conform to the 2000 presentation.

Recent accounting pronouncements The company will adopt Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, at the beginning of its fiscal year 2001. The standard will require the company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The change in a derivative's fair value related to the ineffective portion of a hedge, if any, will be immediately recognized in earnings. The initial adoption of SFAS No. 133 will not have a material effect on the company's results of operations or financial condition.

Common stock

Stock repurchase program The company has an ongoing authorization, as amended, from the Board of Directors to repurchase up to 1.5 billion shares of Intel's common stock in open market or negotiated transactions. During 2000, the company repurchased 73.5 million shares of common stock at a cost of $4.0 billion. As of December 30, 2000, the company had repurchased and retired approximately 1.4 billion shares at a cost of $22.2 billion since the program began in 1990. As of December 30, 2000, 126.7 million shares remained available under the repurchase authorization.

1998 step-up warrants During 1998, approximately 310 million of the 1998 step-up warrants were exercised and shares of common stock were issued for proceeds of $1.6 billion. The expiration date of these warrants was March 14, 1998.

Put warrants

In a series of private placements from 1991 through 1999, the company sold put warrants that entitled the holder of each warrant to sell to the company, by physical delivery, one share of common stock at a specified price. Activity during the past three years is summarized as follows:

		Put warrants outstanding	
(In millions)	Cumulative net premium received	Number of warrants	Potential obligation
December 27, 1997	**$ 623**	**105.2**	**$ 2,041**
Sales	40	30.0	588
Exercises	—	(60.0)	(1,199)
Expirations	—	(65.2)	(1,229)
December 26, 1998	**663**	**10.0**	**201**
Sales	20	8.0	261
Expirations	—	(14.0)	(332)
December 25, 1999	**683**	**4.0**	**130**
Expirations	—	(4.0)	(130)
December 30, 2000	**$ 683**	**—**	**$ —**

Borrowings

Short-term debt Short-term debt at fiscal year-ends was as follows:

(In millions)	2000	1999

Drafts payable (non-interest-bearing)	$ 368	$ 230
Current portion of long-term debt	10	—
Total	**$ 378**	**$ 230**

The company also borrows under commercial paper programs. Maximum borrowings under commercial paper programs reached $539 million during 2000 and $200 million during 1999. This debt is rated A-1+ by Standard & Poor's and P-1 by Moody's.

Long-term debt Long-term debt at fiscal year-ends was as follows:

(In millions)	2000	1999
Payable in U.S. dollars:		
Puerto Rico bonds adjustable 2003, due 2013 at 3.9%-4.25%	$ 110	$ 110
Convertible subordinated notes due 2004 at 4%	—	210
Other U.S. dollar debt	5	6
Payable in other currencies:		
Irish punt due 2001-2027 at 3.5%-13%	602	583
Other non-U.S. dollar debt	—	46
	717	955
Less current portion of long-term debt	(10)	—
Total	**$ 707**	**$ 955**

The company has guaranteed repayment of principal and interest on bonds issued by the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority. The bonds are adjustable and redeemable at the option of either the company or the bondholder every five years through 2013 and are next adjustable and redeemable in 2003.

In September 2000, all of the convertible subordinated notes were exchanged for approximately 7.4 million shares of unregistered Intel common stock. During 1999, the company assumed the notes with a principal amount of $115 million as a result of the Level One Communications, Inc. acquisition (see "Acquisitions"). The value assigned to the notes was approximately $212 million, based upon the assumed conversion price at the date of acquisition. Amortization of the premium substantially offset the interest expense on the notes.

The Irish punt borrowings were made in connection with the financing of manufacturing facilities in Ireland, and Intel has invested the proceeds in Irish punt denominated instruments of similar maturity to hedge foreign currency and interest rate exposures.

As of December 30, 2000, aggregate debt maturities were as follows: 2001—$10 million; 2002—$19 million; 2003—$132 million; 2004—$27 million; 2005—$29 million; and thereafter—$500 million.

Available-for-sale investments

The returns on a majority of the company's marketable investments in long-term fixed rate debt and certain equity securities are swapped to U.S. dollar LIBOR-based returns. The currency risks of investments denominated in foreign currencies are hedged with foreign currency borrowings, currency forward contracts or currency interest rate swaps. (See "Derivative financial instruments" under "Accounting policies.")

Investments in debt securities with maturities of greater than six months consist primarily of A and A2 or better rated financial instruments and counterparties. Investments with maturities of up to six months consist primarily of A-1 and P-1 or better rated financial instruments and counterparties. Foreign government regulations imposed upon investment alternatives of foreign subsidiaries, or the absence of A and A2 rated counterparties in certain countries, result in some minor exceptions. Intel's practice is to obtain and secure available collateral from counterparties against obligations whenever Intel deems appropriate. At December 30, 2000, debt investments were placed with approximately 240 different counterparties.

Available-for-sale investments at December 30, 2000 were as follows:

(In millions)	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Commercial paper	$ 7,182	$ 24	$ (5)	$ 7,201
Bank time deposits	3,171	2	—	3,173
Floating rate notes	2,011	10	(7)	2,014
Corporate bonds	1,195	5	(16)	1,184
Loan participations	903	—	—	903
Securities of foreign governments	294	—	—	294
Repurchase agreements	70	—	—	70
U.S. government securities	31	—	—	31
Other debt securities	21	—	—	21
Total debt securities	14,878	41	(28)	14,891
Marketable strategic equity securities	1,623	756	(464)	1,915
Preferred stock and other equity	109	—	—	109
Total equity securities	1,732	756	(464)	2,024

Swaps hedging investments in debt securities	—	24	(12)	12
Currency forward contracts hedging investments in debt securities	—	4	(21)	(17)
Total available-for-sale investments	**16,610**	**825**	**(525)**	**16,910**
Less amounts classified as cash equivalents	(2,701)	—	—	(2,701)
	$ 13,909	**$ 825**	**$ (525)**	**$ 14,209**

Available-for-sale investments at December 25, 1999 were as follows:

(In millions)	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Commercial paper	$ 2,971	$ —	$ (2)	$ 2,969
U.S. government securities	2,746	—	(5)	2,741
Floating rate notes	2,152	—	(4)	2,148
Bank time deposits	2,022	—	(3)	2,019
Corporate bonds	865	49	(9)	905
Loan participations	625	—	—	625
Fixed rate notes	275	—	(1)	274
Securities of foreign governments	59	—	—	59
Other debt securities	33	—	(1)	32
Total debt securities	11,748	49	(25)	11,772
Marketable strategic equity securities	1,277	5,882	(38)	7,121
Preferred stock and other equity	121	—	—	121
Total equity securities	1,398	5,882	(38)	7,242
Swaps hedging investments in debt securities	—	12	(50)	(38)
Currency forward contracts hedging investments in debt securities	—	2	—	2
Total available-for-sale investments	**13,146**	**5,945**	**(113)**	**18,978**
Less amounts classified as cash equivalents	(3,362)	—	—	(3,362)
	$ 9,784	**$ 5,945**	**$ (113)**	**$ 15,616**

Available-for-sale securities with a fair value at the date of sale of $4.2 billion, $1.0 billion and $227 million were sold in 2000, 1999 and 1998, respectively. The gross realized gains on these sales

totaled $3.4 billion, $883 million and $185 million, respectively, and the company realized $52 million in gross losses on sales in 2000. In 2000, the company recognized gains of $682 million on shares valued at $866 million exchanged in third-party merger transactions. In 2000, the company also recognized $297 million of impairment losses on available-for-sale and non-marketable investments.

The amortized cost and estimated fair value of investments in debt securities at December 30, 2000, by contractual maturity, were as follows:

(In millions)	Cost	Estimated fair value
Due in 1 year or less	$ 13,191	$ 13,199
Due in 1-2 years	1,134	1,139
Due in 2-5 years	94	94
Due after 5 years	459	459
Total investments in debt securities	**$ 14,878**	**$ 14,891**

Derivative financial instruments

Outstanding notional amounts for derivative financial instruments at fiscal year-ends were as follows:

(In millions)	2000	1999
Swaps hedging investments in debt securities	$ 1,337	$ 2,002
Swaps hedging debt	$ 110	$ 156
Currency forward contracts	$ 1,240	$ 845
Options hedging deferred compensation liabilities	$ 111	$ 111

While the contract or notional amounts provide one measure of the volume of these transactions, they do not represent the amount of the company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which a counterparty's obligations exceed the obligations of Intel with that counterparty. The company controls credit risk through credit approvals, limits and monitoring procedures. Credit rating criteria for derivative financial instruments are similar to those for investments.

Swap agreements The company utilizes swap agreements to exchange the foreign currency and interest rate returns of its investment and debt portfolios for floating U.S. dollar interest rate based returns. The floating rates on swaps are based primarily on U.S. dollar LIBOR and are reset on a monthly, quarterly or semiannual basis.

Pay rates on swaps hedging investments in debt securities match the yields on the underlying investments they hedge. Receive rates on swaps hedging debt match the expense on the underlying debt they hedge. Maturity dates of swaps match those of the underlying investment or the debt they hedge. There is approximately a one-to-one matching of swaps to investments and debt. Swap agreements generally remain in effect until expiration.

Weighted average pay and receive rates, weighted average maturities and range of maturities on swaps at December 30, 2000 were as follows:

	Weighted average pay rate	Weighted average receive rate	Weighted average maturity	Range of maturities
Swaps hedging investments in U.S. dollar debt securities	6.71%	6.86%	0.7 years	0-2 years
Swaps hedging investments in foreign currency debt securities	5.40%	6.75%	0.7 years	0-2 years
Swaps hedging debt	6.68%	5.67%	2.8 years	2-3 years

Note: Pay and receive rates are based on the reset rates that were in effect at December 30, 2000.

Other foreign currency instruments Intel transacts business in various foreign currencies, primarily Japanese yen and certain other Asian and European currencies. The company has established revenue, expense and balance sheet hedging programs to protect against reductions in value and volatility of future cash flows caused by changes in foreign exchange rates. The company utilizes currency forward contracts and currency options in these hedging programs. The maturities on these instruments are less than 12 months.

Fair values of financial instruments

The estimated fair values of financial instruments outstanding at fiscal year-ends were as follows:

	2000		1999	
(In millions)	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	$ 2,976	$ 2,976	$ 3,695	$ 3,695
Short-term investments	$ 10,498	$ 10,498	$ 7,740	$ 7,740
Trading assets	$ 355	$ 355	$ 388	$ 388
Marketable strategic equity securities	$ 1,915	$ 1,915	$ 7,121	$ 7,121
Other long-term investments	$ 1,801	$ 1,801	$ 791	$ 791
Non-marketable instruments	$ 1,886	$ 3,579	$ 1,177	$ 3,410
Swaps hedging investments in debt securities	$ 12	$ 12	$ (38)	$ (38)
Options hedging deferred compensation liabilities	$ (5)	$ (5)	$ —	$ —
Short-term debt	$ (378)	$ (378)	$ (230)	$ (230)
Long-term debt	$ (707)	$ (702)	$ (955)	$ (1,046)
Swaps hedging debt	$ —	$ (1)	$ —	$ (5)
Currency forward contracts	$ 2	$ 6	$ 1	$ —

Concentrations of credit risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of investments and trade receivables. Intel places its investments with high-credit-quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty based on Intel's analysis of that counterparty's relative credit standing. A substantial majority of the company's trade receivables are derived from sales to manufacturers of computer systems, with the remainder spread across various other industries. The company's five largest customers accounted for approximately 42% of net revenues for 2000. At December 30, 2000, these customers accounted for approximately 40% of net accounts receivable.

The company endeavors to keep pace with the evolving computer and Internet-related industries, and has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of its end customers and geographic sales areas. Intel performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary.

Interest and other, net

(In millions)	2000	1999	1998
Interest income	$ 920	$ 618	$ 593
Interest expense	(35)	(36)	(34)
Gain on assets contributed to Convera	117	—	—
Other, net	(15)	(4)	14
Total	**$ 987**	**$ 578**	**$ 573**

In December 2000, Intel and Excalibur Technologies Corporation formed a new company, Convera Corporation. Intel contributed its Interactive Media Services division and invested $150 million in cash in exchange for 14.9 million voting and 12.2 million non-voting shares of Convera. Intel recognized a gain of $117 million on the portion of the business and related assets contributed to Convera in which Intel does not retain an ownership interest. Intel will record its proportionate share of Convera's income or loss in interest and other, net.

Comprehensive income

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

(In millions)	2000	1999	1998
Change in unrealized gains on investments, net of tax of $620, $(2,026) and $(357) in 2000, 1999 and 1998, respectively	$ (1,153)	$ 3,762	$ 665
Less: adjustment for net gains realized and included in net income, net of tax of $1,316, $309 and $65 in 2000, 1999 and 1998, respectively	(2,443)	(574)	(120)
Other comprehensive income	**$ (3,596)**	**$ 3,188**	**$ 545**

Accumulated other comprehensive income presented in the accompanying consolidated balance sheets consists of the accumulated net unrealized gain on available-for-sale investments.

Provision for taxes

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

(In millions)	2000	1999	1998
Income before taxes:			
U.S.	$ 11,162	$ 7,239	$ 6,677
Foreign	3,979	3,989	2,460
Total income before taxes	**$ 15,141**	**$ 11,228**	**$ 9,137**
Provision for taxes:			
Federal:			
Current	$ 3,809	$ 3,356	$ 2,321
Deferred	(65)	(162)	145
	3,744	3,194	2,466
State:			
Current	454	393	320
Foreign:			
Current	473	384	351
Deferred	(65)	(57)	(68)
	408	327	283
Total provision for taxes	**$ 4,606**	**$ 3,914**	**$ 3,069**
Effective tax rate	**30.4%**	**34.9%**	**33.6%**

The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable for 2000 by $887 million ($506 million and $415 million for 1999 and 1998, respectively).

The provision for taxes reconciles to the amount computed by applying the statutory federal rate of 35% to income before taxes as follows:

(In millions)	2000	1999	1998
Computed expected tax	$ 5,299	$ 3,930	$ 3,198
State taxes, net of federal benefits	295	255	208
Foreign income taxed at different rates	(363)	(239)	(339)
Non-deductible acquisition-related costs	444	274	74
Reversal of previously accrued taxes	(600)	—	—
Other	(469)	(306)	(72)
Provision for taxes	**$ 4,606**	**$ 3,914**	**$ 3,069**

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 used for income tax purposes.

Significant components of the company's deferred tax assets and liabilities at fiscal year-ends were as follows:

(In millions)	1999	2000
Deferred tax assets		
Accrued compensation and benefits	$ 87	$ 111
Accrued advertising	88	66
Deferred income	307	182
Inventory valuation and related reserves	120	91
Interest and taxes	52	48

Other, net	67	175
	721	673
Deferred tax liabilities		
Depreciation	(721)	(703)
Acquired intangibles	(309)	(214)
Unremitted earnings of certain subsidiaries	(131)	(172)
Unrealized gain on investments	(105)	(2,041)
	(1,266)	(3,130)
Net deferred tax (liability)	**$ (545)**	**$ (2,457)**

U.S. income taxes were not provided for on a cumulative total of approximately $4.2 billion of undistributed earnings for certain non-U.S. subsidiaries. The company intends to reinvest these earnings indefinitely in operations outside the United States.

In March 2000, the Internal Revenue Service (IRS) closed its examination of the company's tax returns for years up to and including 1998. Resolution was reached on a number of issues, including adjustments related to the intercompany allocation of profits. As part of this closure, the company reversed previously accrued taxes, reducing the tax provision for the first quarter of 2000 by $600 million, or approximately $0.09 per share.

Years after 1998 are open to examination by the IRS. Management believes that adequate amounts of tax and related interest and penalties, if any, have been provided for any adjustments that may result for these years.

Employee benefit plans

Stock option plans Intel has a stock option plan under which officers, key employees and non-employee directors may be granted options to purchase shares of the company's authorized but unissued common stock. The company also has a stock option plan under which stock options may be granted to employees other than officers and directors. The company's Executive Long-Term Stock Option Plan, under which certain key employees, including officers, have been granted stock options, terminated in September 1998. Although this termination will not affect options granted prior to this date, no further grants may be made under this plan. Under all of the plans, the option exercise price is equal to the fair market value of Intel common stock at the date of grant. During 2000 and 1999, Intel also assumed the stock option plans and the outstanding options of certain acquired companies. No additional options will be granted under these assumed plans.

Options granted by Intel currently expire no later than 10 years from the grant date and generally vest within 5 years. Additional information with respect to stock option plan activity is as follows:

		Outstanding options	
(Shares in millions)	Shares available for options	Number of shares	Weighted average exercise price
December 27, 1997	**672.8**	**689.6**	**$ 6.56**
Grants	(96.0)	96.0	$ 19.18
Exercises	—	(126.0)	$ 2.30
Cancellations	34.6	(34.6)	$ 11.82
Lapsed under terminated plans	(77.0)	—	$ —
December 26, 1998	**534.4**	**625.0**	**$ 9.07**
Grants	(81.2)	81.2	$ 31.96
Options assumed in acquisitions	—	25.6	$ 12.87
Exercises	—	(96.0)	$ 3.32
Cancellations	24.6	(24.6)	$ 16.43
December 25, 1999	**477.8**	**611.2**	**$ 12.87**
Grants	(162.8)	162.8	$ 54.68
Options assumed in acquisitions	—	4.3	$ 5.21
Exercises	—	(107.5)	$ 4.66
Cancellations	32.6	(32.6)	$ 26.28
December 30, 2000	**347.6**	**638.2**	**$ 24.16**
Options exercisable at:			
December 26, 1998		207.6	$ 3.06
December 25, 1999		206.4	$ 4.71
December 30, 2000		195.6	$ 7.07

The range of option exercise prices for options outstanding at December 30, 2000 was $0.08 to $72.88. The range of exercise prices for options is wide due primarily to the fluctuating price of the company's stock over the period during which the options were granted and the impact of assumed options of acquired companies that had experienced significant price appreciation.

The following tables summarize information about options outstanding at December 30, 2000:

	Outstanding options		
Range of exercise prices	Number of shares (in	Weighted average	Weighted average exercise

	millions)	contract-ual life (in years)	price
$0.08-$7.56	157.1	3.1	$ 4.10
$7.66-$18.83	161.4	5.7	$ 12.96
$18.90-$36.99	161.9	7.6	$ 24.76
$37.15-$72.88	157.8	9.4	$ 54.95
Total	**638.2**	**6.5**	**$ 24.16**

	Exercisable options	
Range of exercise prices	Number of shares (in millions)	Weighted average exercise price
$0.08-$7.56	147.4	$ 4.02
$7.66-$18.83	35.0	$ 13.25
$18.90-$36.99	12.3	$ 23.24
$37.15-$72.88	0.9	$ 42.44
Total	**195.6**	**$ 7.07**

These options will expire if not exercised at specific dates through December 2010. Option exercise prices for options exercised during the three-year period ended December 30, 2000 ranged from $0.08 to $49.81.

Stock participation plan Under this plan, eligible employees may purchase shares of Intel's common stock at 85% of fair market value at specific, predetermined dates. Of the 944 million shares authorized to be issued under the plan, 139.7 million shares remained available for issuance at December 30, 2000. Employees purchased 8.9 million shares in 2000 (10.9 million in 1999 and 12.5 million in 1998) for $305 million ($241 million and $229 million in 1999 and 1998, respectively).

Pro forma information The company has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the company's financial statements.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123. This information is required to be determined as if the company had accounted for its employee stock options (including shares issued under the Stock Participation Plan, collectively called "options") granted subsequent to December 31, 1994 under the fair value method of that statement. The fair value of options granted in 2000, 1999 and 1998 reported below was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

Employee stock options	2000	1999	1998
Expected life (in years)	6.5	6.5	6.5
Risk-free interest rate	6.2%	5.2%	5.3%
Volatility	.42	.38	.36
Dividend yield	.1%	.2%	.2%

Stock Participation Plan shares	2000	1999	1998
Expected life (in years)	.5	.5	.5
Risk-free interest rate	6.1%	4.9%	5.2%
Volatility	.66	.45	.42
Dividend yield	.1%	.2%	.2%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options. The weighted average estimated fair value of employee stock options granted during 2000, 1999 and 1998 was $28.27, $14.77 and $8.96 per share, respectively. The weighted average estimated fair value of shares granted under the Stock Participation Plan during 2000, 1999 and 1998 was $19.60, $9.90 and $5.46, respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The company's pro forma information follows:

(In millions—except per share amounts)	2000	1999	1998
Pro forma net income	$ 9,699	$ 6,860	$ 5,755
Pro forma basic earnings per share	$ 1.45	$ 1.03	$ .87
Pro forma diluted earnings per share	$ 1.40	$ .99	$ .83

Retirement plans The company provides tax-qualified profit-sharing retirement plans (the "Qualified Plans") for the benefit of eligible employees in the U.S. and Puerto Rico and certain foreign 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 to trust funds.

The company also provides a non-qualified profit-sharing retirement plan (the "Non-Qualified Plan") for the benefit of eligible employees in the U.S. 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.

The company expensed $362 million for the Qualified Plans and the Non-Qualified Plan in 2000 ($294 million in 1999 and $291 million in 1998). The company expects to fund approximately $387 million for the 2000 contribution to the Qualified Plans and to allocate approximately $15 million for the Non-Qualified Plan, including the utilization of amounts expensed in prior years. A remaining accrual of approximately $117 million carried forward from prior years is expected to be contributed to these plans in future years.

Contributions made by the company vest based on the employee's years of service. Vesting begins after three years of service in 20% annual increments until the employee is 100% vested after seven years.

The company provides tax-qualified defined-benefit pension plans for the benefit of eligible employees in the U.S. and Puerto Rico. Each plan provides for minimum pension benefits that are determined by a participant's years of service, final average compensation (taking into account the participant's social security wage base) and the value of the company's contributions, plus earnings, in the Qualified Plan. If the participant's balance in the Qualified Plan exceeds the pension guarantee, the participant will receive benefits from the Qualified Plan only. Intel's funding policy is consistent with the funding requirements of federal laws and regulations. The company also provides defined-benefit pension plans in certain foreign countries. The company's funding policy for foreign defined-benefit pension plans is consistent with the local requirements in each country. These defined-benefit pension plans had no material impact on the company's financial statements for the periods presented.

The company provides postemployment benefits for retired employees in the U.S. Upon retirement, eligible 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. These benefits had no material impact on the company's financial statements for the periods presented.

Acquisitions

The company has completed a number of acquisitions that were accounted for using the purchase method of accounting.

2000 In March 2000, the company acquired Ambient Technologies, Inc. Ambient develops integrated digital subscriber line silicon solutions and analog modems designed to bring high-speed Internet access to home users and small businesses.

Also in March 2000, the company acquired GIGA A/S. GIGA specializes in the design of advanced high-speed communications chips used in optical networking and communications products that direct traffic across the Internet and corporate networks.

In April 2000, the company acquired Picazo Communications, Inc. Picazo specializes in CT Media™ server software, which enables third-party vendors to develop innovative applications for telecommunications.

In May 2000, the company acquired Basis Communications Corporation. Basis designs and markets advanced semiconductors and other products used in equipment that directs traffic across the Internet and corporate networks.

In August 2000, the company acquired Trillium Digital Systems, Inc. in exchange for 2.6 million unregistered shares of Intel common stock, cash and options assumed. The portion of the purchase consideration related to 1.2 million shares contingent on the continued employment of certain employees, and the intrinsic value of stock options assumed related to future services, have been classified as unearned compensation within stockholders' equity (see "Acquisition-related unearned stock compensation"). Trillium is a provider of communications software solutions used by suppliers of wireless, Internet, broadband and telephony products.

In October 2000, the company acquired Ziatech Corporation. The intrinsic value of stock options assumed related to future services has been classified as unearned compensation within stockholders' equity. Ziatech designs and markets a full range of Intel® Architecture-based circuit boards, hardware platforms and development systems.

1999 In February 1999, the company acquired Shiva Corporation. Shiva's products include remote access and virtual private networking solutions for the small to mid-sized enterprise market segment and the remote access needs of campuses and branch offices.

In July 1999, the company acquired Softcom Microsystems, Inc. Softcom develops and markets semiconductor products for original equipment manufacturers in the networking and communications market segments. Softcom's high-performance components are designed for networking gear (access devices, routers and switches) used to direct voice and data across the Internet as well as traditional enterprise networks.

In July 1999, the company acquired Dialogic Corporation to expand Intel's standard high-volume server business in the networking and telecommunications market segments. Dialogic designs, manufactures and markets computer hardware and software enabling technology for computer telephony systems.

In August 1999, the company acquired Level One Communications, Inc. Approximately 69 million shares of Intel common stock were issued in connection with the purchase. In addition, Intel assumed Level One's convertible debt with a fair value of approximately $212 million at acquisition. This debt has since been converted to Intel common stock. Level One provides silicon connectivity solutions for high-speed telecommunications and networking applications.

In September 1999, the company acquired NetBoost Corporation. NetBoost develops and markets hardware and software solutions for communications equipment suppliers and independent software vendors in the networking and communications market segments.

In October 1999, the company acquired IPivot, Inc. IPivot designs and manufactures Internet commerce equipment that manages large volumes of Internet traffic securely and efficiently.

In November 1999, the company acquired DSP Communications, Inc., which supplies solutions for digital cellular communications products, including chipsets, reference designs, software and other key technologies for lightweight wireless handsets.

1998 In January 1998, the company acquired Chips and Technologies, Inc. Chips and Technologies was a supplier of graphics accelerator chips for mobile computing products.

In May 1998, the company purchased the semiconductor operations of Digital Equipment Corporation. Assets acquired consisted primarily of property, plant and equipment. Following the purchase, lawsuits between the companies that had been pending since 1997 were dismissed with prejudice.

These purchase transactions are further described below:

(In millions)	Consideration	Purchased in-process research & devel-opment	Goodwill & other identified intangibles	Form of consideration

2000				
Ambient	$ 148	$ 10	$ 135	Cash and options assumed
GIGA	$ 1,247	$ 52	$ 1,184	Cash
Picazo	$ 120	$ —	$ 120	Cash and options assumed
Basis	$ 453	$ 21	$ 472	Cash and options assumed
Trillium	$ 277	$ 8	$ 232	Common stock, cash and options assumed
Ziatech	$ 222	$ 18	$ 185	Cash and options assumed
1999				
Shiva	$ 132	$ —	$ 99	Cash and options assumed
Softcom	$ 149	$ 9	$ 139	Cash and options assumed
Dialogic	$ 732	$ 83	$ 614	Cash and options assumed
Level One	$ 2,137	$ 231	$ 2,007	Common stock and options assumed
NetBoost	$ 215	$ 10	$ 205	Cash and options assumed
IPivot	$ 496	$ —	$ 505	Cash and options assumed
DSP Communications	$ 1,599	$ 59	$ 1,491	Cash and options assumed
1998				
Chips and Technologies	$ 337	$ 165	$ 126	Cash and options assumed
Semiconductor operations of Digital	$ 585	$ —	$ 32	Cash

Consideration includes the cash paid and the value of stock issued and options assumed, less any cash acquired and excluding any debt assumed.

For 2000, 1999 and 1998, $109 million, $392 million and $165 million, respectively, were allocated to purchased in-process research and development (IPR&D) and expensed upon acquisition of the above companies, because the technological feasibility of products under development had not been established and no future alternative uses existed. The fair value of the IPR&D was determined using the income approach, which discounts expected future cash flows from projects under development to their net present value. Each project was analyzed to determine the technological innovations included; the utilization of core technology; the complexity, cost and time to complete development; any alternative future use or current technological feasibility; and the stage of completion. Future cash flows were estimated, taking into account the expected life cycles of the products and the underlying technology, market sizes and industry trends. Discount rates were derived from weighted average cost of capital analyses, adjusted to reflect the relative risks inherent in each entity's development process. The IPR&D charge includes the fair value of IPR&D completed. The fair value assigned to developed technology is included in identified intangible assets, and no value is assigned to IPR&D to be completed or to future development. Intel believes the amounts determined for IPR&D, as well as developed technology, are representative of fair value and do not exceed the amounts an independent party would pay for these projects.

In addition to the transactions described above, Intel purchased other businesses in smaller transactions. The total amount allocated to goodwill and identified intangibles for these transactions was $237 million ($175 million in 1999), which represents a substantial majority of the consideration for these transactions.

The consolidated financial statements include the operating results of acquired businesses from the dates of acquisition. The operating results of Ambient, GIGA, Basis, Trillium, Level One, Softcom and

---

NetBoost have been included in the Network Communications Group operating segment. The operating results of Picazo, Ziatech, Shiva, Dialogic and IPivot have been included in the Communications Products Group operating segment. The operating results of DSP Communications have been included in the Wireless Communications and Computing Group operating segment. All of these groups are part of the "all other" category for segment reporting purposes. The operating results of Chips and Technologies have been included in the Intel Architecture Group operating segment.

The unaudited pro forma information below assumes that companies acquired in 2000 and 1999 had been acquired at the beginning of 1999 and includes the effect of amortization of goodwill and other identified intangibles from that date. The impact of charges for IPR&D has been excluded. This is presented for informational purposes only and is not necessarily indicative of the results of future operations or results that would have been achieved had the acquisitions taken place at the beginning of 1999.

(In millions, except per share amounts—unaudited)	2000	1999
Net revenues	$ 33,850	$ 30,081
Net income	$ 10,466	$ 6,484
Basic earnings per common share	$ 1.56	$ 0.97
Diluted earnings per common share	$ 1.50	$ 0.93

Acquisition-related unearned stock compensation

During 2000, the company recorded acquisition-related purchase consideration of $123 million as unearned stock-based compensation, in accordance with Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." This amount represents the portion of the purchase consideration related to shares issued contingent on continued employment of certain employee stockholders and the intrinsic value of stock options assumed that are earned as future services are provided by employees. The compensation is being recognized over the related employment period, and the expense is included in the amortization of goodwill and other acquisition-related intangibles and costs. A total of $26 million of expense was recognized for 2000.

MTH reserve

During 2000, the company announced that it would replace motherboards that had a defective memory translator hub (MTH) component with the Intel® 820 Chipset. The company took a charge with a total impact on gross margin of approximately $253 million. As of December 30, 2000, the remaining balance of the reserve was approximately $54 million. Management believes that the balance in the reserve is adequate and appropriate for the estimated remaining costs of the motherboard replacement program.

Commitments

The company leases a portion of its capital equipment and certain of its facilities under operating leases that expire at various dates through 2013. Rental expense was $123 million in 2000, $71 million in 1999 and $64 million in 1998. Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 2001—$89 million; 2002—$78 million; 2003—$55 million; 2004—$47 million; 2005—$42 million; 2006 and beyond—$196 million. Commitments for construction or purchase of property, plant and equipment approximated $5.0 billion at December 30, 2000. In connection with certain manufacturing arrangements, Intel had minimum purchase commitments of approximately $76 million at December 30, 2000 for flash memory and silicon wafers.

In January 2001, Intel announced that it had entered into a definitive agreement to acquire Xircom, Inc. for $25 per share in an all-cash tender offer valued at approximately $748 million, before consideration of any cash acquired. In addition, Intel will assume existing employee options. Xircom is a supplier of PC cards and other products used to connect mobile computing devices to corporate

networks and the Internet. The completion of this transaction is subject to acceptance of this offer by holders of a majority of the outstanding shares of Xircom on a fully diluted basis, other customary conditions and compliance by Xircom with certain financial and business criteria. This acquisition is expected to be accounted for using the purchase method of accounting.

Contingencies

In November 1997, Intergraph Corporation filed suit in Federal District Court in Alabama, generally alleging that Intel attempted to coerce Intergraph into relinquishing certain patent rights. The suit alleges that Intel infringes five Intergraph microprocessor-related patents, and includes alleged violations of antitrust laws and various state law claims. The suit seeks injunctive relief, damages and prejudgment interest, and further alleges that Intel's infringement is willful and that any damages awarded should be trebled. Intergraph's expert witness has claimed that Intergraph is entitled to damages of approximately $2.2 billion for Intel's alleged patent infringement, $500 million for the alleged antitrust violations and an undetermined amount for alleged state law violations. Intel believes that it does not infringe Intergraph's patents and believes those patents are invalid and unenforceable. Intel has counterclaimed that the Intergraph patents are invalid and further alleges infringement of seven Intel patents, breach of contract and misappropriation of trade secrets. In October 1999, the court reconsidered an earlier adverse ruling and granted Intel's motion for summary judgment that the Intergraph patents are licensed to Intel, and dismissed all of Intergraph's patent infringement claims with prejudice. This ruling has been reversed by the Court of Appeals for the Federal Circuit, and as a result, the patent issues are returned to the District Court. In March 2000, the District Court granted Intel's motion for summary judgment on Intergraph's federal antitrust claims, and in April 2000, Intergraph appealed this ruling. Intergraph's state law claims remain at issue in the trial court. The company disputes Intergraph's claims and intends to defend the lawsuit vigorously.

The company is currently party to various legal proceedings, including that noted above. While management, including internal counsel, currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on the company's financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the net income of the period in which the ruling occurs.

Intel has been named to the California and U.S. Superfund lists for three of its sites and has completed, along with two other companies, a Remedial Investigation/Feasibility study with the U.S. Environmental Protection Agency (EPA) to evaluate the groundwater in areas adjacent to one of its former sites. The EPA has issued a Record of Decision with respect to a groundwater cleanup plan at that site, including expected costs to complete. Under the California and U.S. Superfund statutes, liability for cleanup of this site and the adjacent area is joint and several. The company, however, has reached agreement with those same two companies which significantly limits the company's liabilities under the proposed cleanup plan. Also, the company has completed extensive studies at its other sites and is engaged in cleanup at several of these sites. In the opinion of management, including internal counsel, the potential losses to the company in excess of amounts already accrued arising out of these matters would not have a material adverse effect on the company's financial position or overall trends in results of operations, even if joint and several liability were to be assessed.

The estimate of the potential impact on the company's financial position or overall results of operations for the above legal proceedings could change in the future.

Operating segment and geographic information

Intel designs, develops, manufactures and markets computer and networking and communications products at various levels of integration. The company is organized into five product-line operating segments: the Intel Architecture Group, the Wireless Communications and Computing Group, the Communications Products Group, the Network Communications Group and the New Business Group. Each group has a vice president who reports directly to the Chief Executive Officer (CEO). The CEO

allocates resources to each group using information about their revenues and operating profits before interest and taxes. The CEO has been identified as the Chief Operating Decision Maker as defined by SFAS No. 131. Only the Intel Architecture Group meets the criteria for a reportable segment under the standard.

The Intel Architecture Group's products include microprocessors and related board-level products and chipsets based on the P6 micro-architecture (including the Pentium® III, Intel® Celeron™ and Pentium® III Xeon™ processors) as well as the Pentium® 4 processor based on the new Intel® NetBurst™ micro-architecture. Sales of microprocessors and related board-level products, including chipsets, based on the P6 micro-architecture comprised a substantial majority of the company's 2000 revenues and gross margin. The Wireless Communications and Computing Group's products are primarily component-level hardware for digital cellular communications and other wireless applications, including flash memory, low-power processors and baseband chipsets for wireless devices. The Communications Products Group's products consist of building blocks for Internet data centers and networks. The Network Communications Group's products include communications silicon components, such as network processors, used in local and wide area networking applications and embedded control chips. The New Business Group provides e-Commerce data center services as well as products such as connected peripherals. Intel's products in all operating groups are sold directly to original equipment manufacturers, and through retail and industrial distributors, resellers and e-Business channels throughout the world.

In addition to these operating segments, the sales and marketing, manufacturing, finance and administration groups report to the CEO. Expenses of these groups are allocated to the operating segments and are included in the operating results reported below. Certain corporate-level operating expenses (primarily the amount by which profit-dependent bonus expenses differ from a targeted level recorded by the operating segments) are not allocated to operating segments and are included in "all other" in the reconciliation of operating profits reported below.

During 1999 and 1998, changes in the reserve for deferred income on shipments to distributors were not allocated to the operating segments and were included in the "all other" category. For 2000, the revenues and operating profit related to changes in the distributor reserve have been allocated to the operating segments, and information for prior periods has been restated to conform to the new presentation.

Intel does not identify or allocate assets by operating segment, and does not allocate depreciation as such to the operating segments, nor does the CEO evaluate groups on these criteria. Operating segments do not record intersegment revenues, and, accordingly, there are none to be reported. Intel does not allocate interest and other income, interest expense or taxes to operating segments. The accounting policies for segment reporting are the same as for the company as a whole (see "Accounting policies").

Information on reportable segments for the three years ended December 30, 2000 is as follows:

(In millions)	2000	1999	1998
Intel Architecture Group			
Revenues	$ 27,297	$ 25,459	$ 23,654
Operating profit	$ 12,986	$ 11,435	$ 9,314
All other			

Revenues	$ 6,429	$ 3,930	$ 2,619
Operating loss	$ (2,591)	$ (1,668)	$ (935)
Total			
Revenues	$ 33,726	$ 29,389	$ 26,273
Operating profit	$ 10,395	$ 9,767	$ 8,379

In both 2000 and 1999, two customers each accounted for 13% of the company's revenues. In 1998, one customer accounted for 13% of the company's revenues and another accounted for 11%. A substantial majority of the sales to these customers were Intel Architecture Group products.

Geographic revenue information for the three years ended December 30, 2000 is based on the location of the selling entity. Property, plant and equipment information is based on the physical location of the assets at the end of each of the fiscal years.

Revenues from unaffiliated customers by geographic region were as follows:

(In millions)	2000	1999	1998
United States	$ 13,912	$ 12,740	$ 11,663
Asia-Pacific	8,674	6,704	5,309
Europe	8,066	7,798	7,452
Japan	3,074	2,147	1,849
Total revenues	**$ 33,726**	**$ 29,389**	**$ 26,273**

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

(In millions)	2000	1999
United States	$ 11,108	$ 8,127
Ireland	1,545	1,312
Other foreign countries	2,360	2,276
Total property, plant and equipment, net	**$ 15,013**	**$ 11,715**

Supplemental information (unaudited)

Quarterly information for the two years ended December 30, 2000 is presented on page 45.

Report of Ernst & Young LLP, independent auditors

The Board of Directors and Stockholders, Intel Corporation

We have audited the accompanying consolidated balance sheets of Intel Corporation as of December 30, 2000 and December 25, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intel Corporation at December 30, 2000 and December 25, 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States.

San Jose, California
January 15, 2001

Financial information by quarter (unaudited)

(In millions—except per share amounts) 2000 for quarter ended	December 30	September 30	July 1	April 1
Net revenues	$ 8,702	$ 8,731	$ 8,300	$ 7,993
Cost of sales	$ 3,230	$ 3,148	$ 3,283	$ 2,989
Amortization of goodwill and other acquisition-related intangibles and costs	$ 459	$ 420	$ 394	$ 313
Purchased in-process research and development	$ 18	$ 8	$ 21	$ 62
Net income	$ 2,193	$ 2,509	$ 3,137	$ 2,696
Basic earnings per share	$ .33	$ .37	$ .47	$ .40
Diluted earnings per share	$ .32	$ .36	$ .45	$ .39

Dividends per share(A)					
Declared	$ —	$ .020	$ .020	$ .030	
Paid	$ .020	$ .020	$ .015	$ .015	
Market price range common stock(B)					
High	$ 46.69	$ 74.88	$ 69.50	$ 72.03	
Low	$ 30.06	$ 41.56	$ 53.03	$ 39.38	

(In millions—except per share amounts) 1999 for quarter ended	December 25	September 25	June 26	March 27
Net revenues	$ 8,212	$ 7,328	$ 6,746	$ 7,103
Cost of sales	$ 3,176	$ 3,026	$ 2,740	$ 2,894
Amortization of goodwill and other acquisition-related intangibles and costs	$ 241	$ 121	$ 31	$ 18
Purchased in-process research and development	$ 59	$ 333	$ —	$ —
Net income	$ 2,108	$ 1,458	$ 1,749	$ 1,999
Basic earnings per share	$ .32	$ .22	$ .26	$ .30
Diluted earnings per share	$ .30	$ .21	$ .25	$ .29
Dividends per share(A)				
Declared	$ —	$ .030	$ —	$ .025
Paid	$ .015	$ .015	$ .015	$ .010
Market price range common stock(B)				
High	$ 41.56	$ 44.66	$ 33.03	$ 35.24
Low	$ 32.56	$ 28.50	$ 25.25	$ 27.45

(A)

The company's dividend policy generally results in the Board of Directors considering two dividend declarations in each of the first and third quarters of the year and no declarations in the second and fourth quarters. However, in conjunction with the stock split announcement in the second quarter of 2000, the Board of Directors declared a quarterly dividend, and at the same time the Board of Directors approved an increase in the quarterly dividend. Only one dividend was declared in the third quarter.

(B)

Intel's common stock (symbol INTC) trades on The Nasdaq Stock Market* and is quoted in the Wall Street Journal and other newspapers. Intel's common stock also trades on The Swiss Exchange. At December 30, 2000, there were approximately 255,612 registered holders of common stock. All stock prices are closing prices per The Nasdaq Stock Market, as adjusted for stock splits.

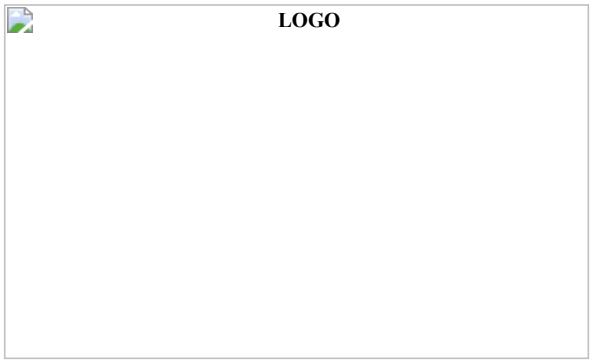
*

All other brands and names are the property of their respective owners.

Management's discussion and analysis of financial condition and results of operations

Results of operations

We posted record net revenues in 2000, for the 14th consecutive year, increasing by 15% from 1999, and by 12% from 1998 to 1999. Net revenues for the Intel Architecture Group operating segment increased by 7% from 1999, and by 8% from 1998 to 1999. The increases for the Intel Architecture Group for both periods were primarily due to higher unit sales volume of microprocessors, partially offset by lower average selling prices. Additionally, within the "all other" category for operating segment reporting, revenues from sales of flash memory and networking and communications products grew significantly during 2000 and 1999. During 2000, the revenues related to changes in the reserve on shipments to distributors were allocated to the operating segments. Amounts for prior periods have been reclassified on a comparable basis.



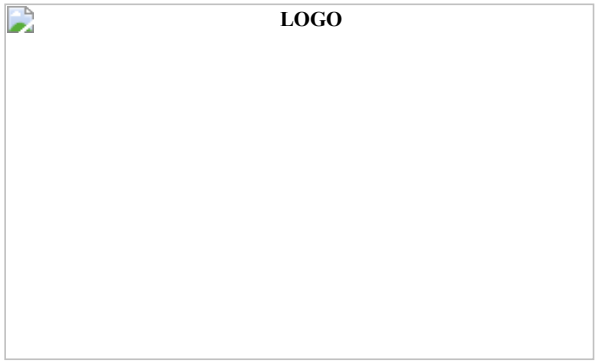
During 2000 and 1999, sales of microprocessors and related board-level products, including chipsets, based on the P6 micro-architecture (including the Intel® Celeron™ Pentium® III and Pentium® III Xeon™ processors), which are included in the Intel Architecture Group's operations, comprised a substantial majority of our consolidated net revenues and gross margin. For 1998, these products represented a majority of our consolidated net revenues and a substantial majority of gross margin. Sales of Pentium® processors, including Pentium® processors with MMX™ technology, were rapidly declining but still a significant portion of our revenues and gross margin for 1998.

Although the total cost of sales increased by 7% from 1999 to 2000, the cost of sales within the Intel Architecture Group operating segment decreased, primarily due to lower unit costs. The decreased costs were achieved primarily through the continued transition to redesigned microprocessor products with lower cost packaging as well as factory efficiencies. The lower unit costs within the Intel Architecture Group were partially offset by higher costs due to a higher sales volume of microprocessors and the costs recorded in 2000 related to chipsets and motherboards with the defective memory translator hub (MTH) component. Within the "all other" category for segment reporting, higher costs due to higher sales volume of flash and networking and communications products more than offset the decreased costs from the Intel Architecture Group.

From 1998 to 1999, cost of sales decreased 2%, primarily due to lower unit costs for microprocessors in 1999 for the Intel Architecture Group operating segment. The lower unit costs were achieved primarily through lower cost packaging for microprocessors, factory efficiencies and lower purchase prices on purchased components. These lower unit costs were partially offset by a higher unit sales volume in 1999.

Our total gross margin percentage increased to 62% in 2000, up from 60% in 1999. The improvement in gross margin was primarily a result of the lower unit costs of microprocessors in the Intel Architecture Group, partially offset by the impact of lower average sales prices for microprocessors and the impact of the MTH issue. Improved demand and higher prices for flash memory in 2000 also contributed to the improvement in gross margin.

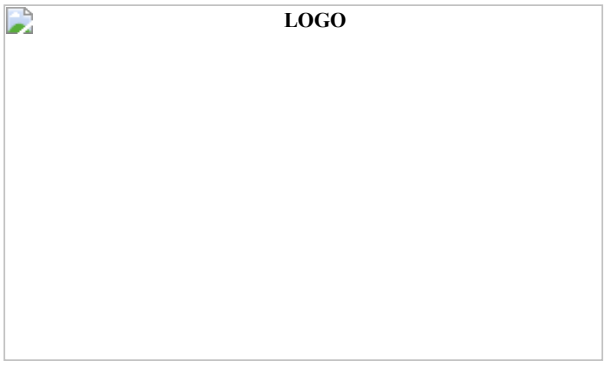
The total gross margin percentage increased to 60% in 1999 from 54% in 1998, primarily due to lower unit costs in the Intel Architecture Group operating segment, partially offset by lower average selling prices. See "Outlook" for a discussion of gross margin expectations.



Excluding charges of $109 million for purchased in-process research and development (IPR&D) related to the current year's acquisitions, $392 million in 1999 and $165 million in 1998, research and development spending increased $786 million, or 25%, in 2000 compared to 1999 and $602 million, or 24%, in 1999 compared to 1998. The increase for both periods was primarily due to increased spending on product development programs, including product development of companies acquired. Marketing, general and administrative expenses increased $1.2 billion, or 31%, in 2000 compared to 1999, primarily due to increases for the Intel Inside® cooperative advertising program; profit-dependent bonus expenses; and marketing, general and administrative expenses from companies acquired. Marketing, general and administrative expenses increased $796 million, or 26%, from 1998 to 1999, primarily due to increases for the Intel Inside cooperative advertising program, merchandising spending related to new product launches and profit-dependent bonus expenses.

Amortization of goodwill and other acquisition-related intangibles and costs increased to $1.6 billion in 2000 compared to $411 million in 1999, primarily due to the additional acquisitions and a full year's impact of prior year acquisitions. This amortization increased $355 million from 1998 to 1999, primarily due to the impact of the acquisitions made in 1999. For 2000 and 1999, a substantial majority of this amortization was included in the calculation of the operating loss for the "all other" category for segment reporting purposes.

Gains on investments, net increased to $3.8 billion in 2000, including a significant gain on the sale of our holdings of Micron Technology, Inc., compared to $883 million in 1999. For 2000, the gains were net of $297 million in impairment losses taken on investments. For 1999 compared to 1998, gains on investments increased by $698 million.



Interest and other, net increased $409 million from 1999 to 2000. Interest income increased due to higher average investment balances and higher interest rates in 2000 compared to 1999. In addition, we

---

recognized a $117 million gain on our Interactive Media Services business contributed to Convera Corporation in 2000. For 1999 compared to 1998, interest and other, net increased $5 million, primarily due to higher interest income from higher average investment balances.

Our effective income tax rate was 30.4% in 2000, 34.9% in 1999 and 33.6% in 1998. Excluding a one-time benefit for the reversal in 2000 of previously accrued taxes, and the impact of non-deductible charges for IPR&D and amortization of goodwill, our effective income tax rate was 31.8% in 2000. Excluding the impact of the non-deductible charges, our effective rate was approximately 33% for both 1999 and 1998. The lower rate in 2000 compared to 1999 and 1998 reflected the impact of the resolution reached with the Internal Revenue Service in 2000 on a number of issues, including adjustments related to the intercompany allocation of profits.

Purchased in-process research and development

The following table summarizes the significant assumptions underlying the valuations related to IPR&D from major companies acquired at the time of acquisition in fiscal 2000, 1999 and 1998.

(Dollars in millions)	IPR&D	Estimated cost to complete technology	Discount rate applied to IPR&D	Weighted average cost of capital
2000				
GIGA	$ 52	$ 12.0	20%	15%
1999				
Dialogic	$ 83	$ 32.0	22%	17%

Level One	$ 231	$ 19.1	30%	23%
DSP Communications	$ 59	$ 13.0	20%	17%
1998				
Chips and Technologies	$ 165	$ 30.0	20%	10%

Included below are further details regarding the technology acquired in these transactions.

2000 acquisitions In March 2000, we acquired GIGA A/S. GIGA specializes in the design of advanced, high-speed communications chips used in optical networking and communications products that direct traffic across the Internet and corporate networks. One project, in the 10 gigabit-per-second product group, accounted for 73% of the IPR&D value and was approximately 61% complete at the time of acquisition. This project was completed on schedule in 2000.

1999 acquisitions In July 1999, we acquired Dialogic Corporation. Dialogic designs, manufactures and markets computer hardware and software enabling technology for computer telephony systems. Two projects under the Springware and CT Server product groups accounted for 65% of the value assigned to IPR&D. Springware is a line of voice and intelligent network interface boards that provide signal processing features that can be reconfigured by developers for special applications. The next-generation Springware project was estimated to be approximately 60% complete. The CT Server project was designed to converge voice, media and packet communications within enterprise or public networking systems by providing a single platform for telecommunications switching, media processing and other communications services. The CT Server project was estimated to be approximately 55% complete. Substantially all of the Dialogic projects were completed in 1999 and 2000.

In August 1999, we acquired Level One Communications, Inc. Level One provides silicon connectivity, switching and access solutions for high-speed telecommunications and networking applications. Eight IPR&D projects were identified and valued, with each project representing from 5% to 18% of the total IPR&D value. In-process projects included transceivers, routers and switch chipsets using current and emerging technologies for the networking and telecommunications markets. These projects ranged from 39% to 86% complete. Level One's projects have been completed, with the

---

exception of three projects, accounting for 27% of the value assigned to IPR&D, which are now expected to be completed in the first half of 2001.

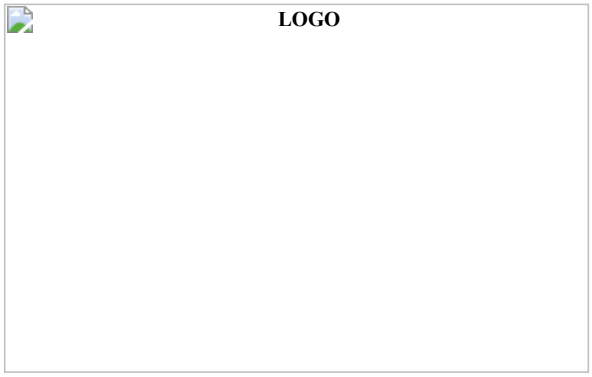
In November 1999, we acquired DSP Communications, Inc. DSP Communications develops and supplies form-fit reference designs, chipsets and software for mobile telephone manufacturers. Four IPR&D projects were identified and valued, with each project representing from 9% to 31% of the total IPR&D value. The in-process projects consisted of enhancements of DSP Communications' existing digital cellular chipsets, new third-generation chipsets and new products designed for use in other emerging wireless personal communications services. These projects ranged from 10% to 90% complete. Significant portions of three projects based on CDMA (code division multiple access), TDMA (time division multiple access) and PDC (personal digital cellular) standards, and accounting for 70% of the value assigned to IPR&D, were cancelled in 2000, with technology development efforts refocused on next-generation standards for these markets. Projects completed in 2000 represented approximately 15% of the value assigned to IPR&D.

1998 acquisitions In 1998, we purchased Chips and Technologies, Inc., which had a product line of mobile graphics controllers based on 2D and video graphics technologies. New technologies for embedded memory and 3D graphics represented approximately 70% of the estimated IPR&D. Development of the first mobile graphics products using the embedded memory technology was estimated to be approximately 80% complete and was completed in August 1998. The 3D technology was at an earlier stage of development. We had licensed the 3D technology of another company for a line of desktop graphics controllers, and subsequent to the acquisition, further development of the Chips and Technologies 3D technology was stopped. During 1999, we realigned the discrete graphics resources to focus on integrated graphics chipsets utilizing the core technology acquired from Chips and Technologies.

Failure to deliver new products to the market on a timely basis, or to achieve expected market acceptance or revenue and expense forecasts, could have a significant impact on the financial results and operations of the acquired businesses.

Financial condition

Our financial condition remains strong. At December 30, 2000, cash, trading assets and short-term investments totaled $13.8 billion, up from $11.8 billion at December 25, 1999. Cash provided by operating activities was $12.8 billion in 2000, compared to $12.1 billion and $9.4 billion in 1999 and 1998, respectively.



We used $10.0 billion in net cash for investing activities during 2000, compared to $6.2 billion during 1999 and $6.8 billion during 1998. Capital expenditures totaled $6.7 billion in 2000 as we continued to invest in property, plant and equipment, primarily for additional microprocessor manufacturing capacity and the transition of manufacturing technology. During 2000, we also paid $2.3 billion in cash for acquisitions, net of cash acquired, including the purchases of Ambient Technologies, Inc., GIGA, Picazo Communications, Inc., Basis Communications Corporation, Trillium

---

Digital Systems, Inc. and Ziatech Corporation. We also had committed approximately $5.0 billion for the purchase or construction of property, plant and equipment as of December 30, 2000. See "Outlook" for a discussion of capital expenditure expectations in 2001.

Inventory levels in total increased in 2000, with raw materials, work-in-process and finished goods inventory all contributing to the increase. For 2000, accounts receivable increased due to higher revenues and reflected a moderate increase in the days' sales outstanding. Our five largest customers accounted for approximately 42% of net revenues for 2000. In 2000, two customers each accounted for 13% of revenues. At December 30, 2000, the five largest customers accounted for approximately 40% of net accounts receivable.

We used $3.5 billion in net cash for financing activities in 2000, compared to $4.2 billion and $4.7 billion in 1999 and 1998, respectively. The major financing applications of cash in 2000 were for the repurchase of 73.5 million shares of common stock for $4.0 billion and payment of dividends of $470 million. The major financing applications of cash in

1999 and 1998 were for stock repurchases totaling $4.6 billion and $6.8 billion, respectively, and payments of dividends of $366 million and $217 million, respectively. Financing sources of cash during 2000 were primarily $797 million in proceeds from the sale of shares mainly pursuant to employee stock plans ($543 million in 1999 and $507 million in 1998). Financing sources of cash during 1998 also included $1.6 billion in proceeds from the exercise of the 1998 step-up warrants.

At December 30, 2000, marketable strategic equity securities totaled $1.9 billion, with $292 million in net unrealized appreciation made up of $756 million in gross unrealized appreciation and $464 million in gross unrealized depreciation. The total value of the portfolio decreased by $5.2 billion compared to December 25, 1999, and net unrealized appreciation decreased by approximately $5.5 billion, primarily due to sales of appreciated investments and declines in market values.

Another source of liquidity is authorized borrowings, including commercial paper, of $3 billion. We also maintain the ability to issue an aggregate of approximately $1.4 billion in debt, equity and other securities under Securities and Exchange Commission shelf registration statements.

In January 2001, we announced that we had entered into a definitive agreement to acquire Xircom, Inc. in an all-cash tender offer valued at approximately $748 million, before consideration of any cash acquired. The completion of this transaction is subject to acceptance of this offer by holders of a majority of the outstanding shares of Xircom on a fully diluted basis, other customary conditions and compliance by Xircom with certain financial and business criteria.

We believe that we have the financial resources needed to meet business requirements for the next 12 months, including the acquisition of Xircom, capital expenditures for the expansion or upgrading of worldwide manufacturing capacity, working capital requirements and the dividend program.

Financial market risks

We are exposed to financial market risks, including changes in interest rates, foreign currency exchange rates and marketable equity security prices. To mitigate these risks, we utilize derivative financial instruments. We do not use derivative financial instruments for speculative or trading purposes. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions at December 30, 2000. Actual results may differ materially.

The primary objective of our investments in debt securities is to preserve principal while maximizing yields, without significantly increasing risk. To achieve this objective, the returns on a substantial majority of our marketable investments in long-term fixed rate debt securities are swapped to U.S. dollar LIBOR-based returns. We considered the historical volatility of the three-month LIBOR rate experienced in the past year and determined that it was reasonably possible that an adverse change of 80 basis points, approximately 12% of the rate at the end of 2000, could be experienced in the near term. A hypothetical 80-basis-point increase in interest rates would result in an approximate $20 million decrease in the fair value of our investments in debt securities as of the end of each of 2000 and 1999.

We hedge currency risks of investments denominated in foreign currencies with foreign currency borrowings, currency forward contracts and currency interest rate swaps. Gains and losses on these foreign currency investments would generally be offset by corresponding losses and gains on the related hedging instruments, resulting in negligible net exposure.

A substantial majority of our revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, we do enter into these transactions in other currencies, primarily Japanese yen and certain other Asian and European currencies. To protect against reductions in value and the volatility of future cash flows caused by changes in currency exchange rates, we have established revenue, expense and balance sheet hedging programs. Currency forward contracts and currency options are utilized in these hedging programs. Our hedging programs reduce, but do not always entirely eliminate, the impact of currency exchange rate movements. We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 20% for certain Asian and European currencies and 10% for all other currencies could be experienced in the near term. Such an adverse change would result in an adverse impact on income before taxes of less than $20 million as of the end of each of 2000 and 1999.

We are exposed to equity price risks on the marketable portion of our portfolio of strategic equity securities. We typically do not attempt to reduce or eliminate our market exposure on these securities. These investments are generally in companies in the high-technology industry, and a substantial majority of the market value of the portfolio is in three sectors: Internet, semiconductor and networking. As of December 30, 2000, five equity positions constituted approximately 40% of the market value of the portfolio, with no individual position exceeding 15% of the portfolio.

We analyzed the historical movements over the past several years of high-technology stock indices that we considered appropriate. Based on the analysis, we estimated that it was reasonably possible that the prices of the stocks in our portfolio could experience a 30% adverse change in the near term. Assuming a 30% adverse change, our marketable strategic equity securities would decrease in value by approximately $575 million, based on the value of the portfolio as of December 30, 2000 (a decrease of $2.1 billion in value based on the portfolio as of the end of 1999). The decrease in this hypothetical exposure from 1999 to 2000 reflects the decrease in the size of the portfolio due to sales of investments and declines in market values. The portfolio's concentrations in specific companies or sectors may vary over time and may be different from the compositions of the indices analyzed, and these factors may affect the portfolio's price volatility. This estimate is not necessarily indicative of future performance, and actual results may differ materially.

Outlook

This outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially. These statements do not reflect the potential impact of any mergers, acquisitions or business combinations that had not closed as of March 1, 2001.

Our goal is to be the preeminent building block supplier to the worldwide Internet economy. Our primary focus areas are the desktop and mobile platforms, the server platform, and networking and communications, including wireless communications, as well as new business opportunities around the Internet. Our five product-line operating segments support these initiatives.

The Intel Architecture Group operating segment supports the desktop, mobile and server platform initiatives. Our strategy for these platforms is to introduce ever-higher performance microprocessors and chipsets, tailored for different market segments of the worldwide computing market, using a tiered branding approach. To further enhance the acceptance and deployment of these products by our customers, we also provide e-Business enabling solutions. In line with our strategy, we seek to develop higher performance microprocessors based on the P6 micro-architecture specifically for each computing segment: the Intel Celeron processor for the value segment; Pentium III processors for home and business applications, and for entry-level servers and workstations; and Pentium III Xeon processors for mid-range and high-end servers and workstations. In the fourth quarter of 2000, we introduced a new generation of microprocessors based on our new Intel® NetBurst™ micro-architecture under the Pentium® 4 brand name. The Pentium 4 processor is designed for home and business applications, and for entry-level servers and workstations, and is optimized for consumers who want to take advantage of the latest Web technologies such as broadband, interactive 3D and streaming video and audio.

In 2000, we shipped thousands of prototype processors based on the IA-64 architecture for high-end servers, under the Itanium™ brand, and began to ship processors for systems used by information technology end users in pilot installations. We expect the release of production systems during 2001.

We plan to cultivate new businesses as well as continue to work with the computing industry to expand Internet capabilities and product offerings, and to develop compelling software applications that can take advantage of higher performance microprocessors and chipsets, thus driving demand toward our newer products in each computing market segment. Our microprocessor products compete with existing and future products in the various computing market segments. We have recently experienced an increase in the

competitive product offerings in the performance desktop market segment. We may continue to take various steps, including reducing microprocessor prices and offering rebates at such times as we deem appropriate, in order to increase acceptance of our latest technology and to remain competitive within each relevant market segment.

The Wireless Communications and Computing Group operating segment supports our wireless communications initiatives. Our strategy is to deliver flash memory with enhanced features for handheld wireless devices, and faster processors for applications requiring both high performance and low power. During 2000, we introduced the Intel® XScale™ micro-architecture, building on the Intel® StrongARM* technology, to meet the needs of wireless devices.

In the networking and communications infrastructure area, our strategy is to deliver both system-level communications building blocks at various levels of integration, and component-level silicon building blocks for networking and communications systems. The Communications Products Group operating segment supports initiatives to deliver the system-level communications products directed at service providers running e-Business data centers. The Communications Products Group focuses on selling its Intel® NetStructure™ products to original equipment manufacturer (OEM) customers. The Communications Products Group also provides component-level products for converged voice and data communications systems for the telecommunications industry. The Network Communications Group operating segment supports initiatives to deliver component-level networking products to OEMs building communications systems for home and small and mid-sized businesses. Networking products include network processors, network connectivity products including wireless network cards,

---

embedded control chips and optical networking components. We have made acquisitions and expect to make additional acquisitions to grow the networking and communications area.

The New Business Group operating segment supports our initiatives directed toward nurturing and growing business opportunities around the Internet and the PC. The group's current products include Web hosting services and connected peripherals.

Although current negative trends in global economic conditions make it particularly difficult to predict product demand, in 2001 we expect continued growth in the total number of computers using processors based on Intel's P6 micro-architecture, and the Pentium 4 processor based on the new Intel NetBurst micro-architecture. In our networking, communications and wireless businesses, we expect revenues to continue to grow faster than in our core Intel Architecture business. However, our financial results are substantially dependent on sales of microprocessors and related components by the Intel Architecture Group. Revenues are partly a function of the mix of microprocessor types and speeds sold as well as the mix of related chipsets, motherboards, purchased components and other semiconductor products, all of which are difficult to forecast. Because of the wide price difference among types of microprocessors, this mix affects the average price that we will realize and has a large impact on our revenues and gross margin. Microprocessor revenues are dependent on the availability of other parts of the system platform, including chipsets, motherboards, operating system software and application software. Our expectations regarding growth in the computing industry worldwide are dependent in part on the growth in usage of the Internet and the expansion of Internet product offerings. The expectations are also subject to the impact of economic conditions in various geographic regions.

Our expectations regarding growth in the networking, communications and wireless areas are subject to our ability to acquire businesses as well as to integrate and operate them successfully, and to grow new businesses internally.

Our gross margin expectation for 2001 is uncertain at this time; however, during 2001, margin will be negatively affected by rising unit costs from the Pentium 4 processor ramp, related to the larger die size of that processor, and factory startup costs. We expect higher unit costs to be somewhat offset in the second half by increased production and a reduction in overhead costs per unit, assuming the economic situation improves. Our gross margin varies, depending on unit volumes, the mix of types and speeds of processors sold as well as the mix of microprocessors, related chipsets and motherboards, and purchased components. Various other factors—including yield issues associated with production at factories, ramp of new technologies, excess or shortage of manufacturing capacity and our ability to forecast demand and optimize the allocation of existing capacity across product lines, the reusability of factory equipment, insufficient or excess inventory, inventory obsolescence, variations in inventory valuation and mix of shipments of other semiconductor and non-semiconductor products—will also continue to affect cost of sales and the variability of gross margin percentages.

Our primary goal is to get our advanced technology to the marketplace and at the same time increase gross margin dollars. Our plans to grow in non-microprocessor areas, particularly those areas that have the potential to expand networking and communications capabilities, are intended to increase gross margin dollars but may lower the gross margin percentage.

We have expanded our semiconductor manufacturing and assembly and test capacity over the last few years, and we continue to plan capacity based on the assumed continued success of our strategy as well as the acceptance of our products in specific market segments. We expect that capital spending will increase to approximately $7.5 billion in 2001 from $6.7 billion in 2000. The increase is primarily a result of expected spending related to the development and ramp of next-generation 0.13-micron process technology and for 300-millimeter wafer manufacturing. If the market demand does not continue to grow and move rapidly toward higher performance products in the various market segments, revenues and gross margin may be adversely affected, manufacturing capacity could be under-utilized, and we may slow the rate of capital spending. Revenues and gross margin may also be affected if we do not add capacity fast enough to meet market demand. This spending plan is dependent upon expectations regarding production efficiencies and delivery times of various machinery and equipment, and construction schedules for new facilities. Depreciation for 2001 is expected to be

---

approximately $4 billion, compared to $3.2 billion in 2000. Most of this increase would be included in cost of sales and research and development spending. Amortization of goodwill and other acquisition-related intangibles and costs is expected to be approximately $1.9 billion for 2001.

The industry in which we operate is characterized by very short product life cycles, and our continued success is dependent on technological advances, including the development and implementation of new processes and new strategic products for specific market segments. Because we consider it imperative to maintain a strong research and development program, spending for research and development in 2001, excluding purchased in-process research and development, is expected to increase to approximately $4.2 billion from $3.9 billion in 2000. The higher spending is primarily for next-generation manufacturing technology and product development. We also intend to continue spending to promote our products and to increase the value of our product brands.

In March 2001, we announced that we expect to reduce headcount by approximately 5,000 people over the remainder of 2001, predominantly through attrition. The planned reduction excludes any headcount additions from potential future acquisitions.

Given the current equity market conditions, we do not expect the large gains we realized in 2000 on the Intel Capital strategic equity portfolio to recur in 2001. For the first quarter of 2001, we do not expect to realize any net gains on our equity investments. When calculating net gains, we include realized gains and losses on sales or exchanges of securities and any impairment losses that we may recognize.

We currently expect our tax rate to be approximately 30.3% for 2001, excluding the impact of costs related to prior and any future acquisitions. This estimate is based on current tax law, the current estimate of earnings and the expected distribution of income among various tax jurisdictions, and is subject to change.

During 1998, we established a team to address the issues raised by the introduction of the Single European Currency, the Euro, on January 1, 1999. The team is continuing to work on the conversion issues during the transition period through January 1, 2002. Our internal systems that were affected by the initial introduction of the Euro were made Euro capable without material system modification costs. Further internal systems changes are being made during the three-year transition phase in preparation for the ending of bilateral rates in January 2002 and the ultimate withdrawal of the legacy currencies thereafter. The costs of these changes are not expected to be material. The introduction of the Euro has

not materially affected our foreign exchange and hedging activities, or our use of derivative instruments, and is not expected to result in any material increase in costs. While we will continue to evaluate the impact of the ongoing Euro conversion over time, based on currently available information, management does not believe that the Euro conversion will have a material adverse impact on our financial condition or overall trends in results of operations.

We are currently party to various legal proceedings. Although litigation is subject to inherent uncertainties, management, including internal counsel, does not believe that the ultimate outcome of these legal proceedings will have a material adverse effect on our financial position or overall trends in results of operations. However, if an unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of operations of that period. Management believes, given our current liquidity and cash and investment balances, that even an adverse judgment would not have a material impact on cash and investments or liquidity.

Our future results of operations and the other forward-looking statements contained in this outlook involve a number of risks and uncertainties—in particular the statements regarding our goals and strategies, expected product introductions, expectations regarding additional acquisitions, intentions regarding building new businesses around the Internet, the number of computers using Intel processors, gross margin and costs, capital spending, depreciation and amortization, research and development expenses, headcount reduction expectations, the tax rate, the conversion to the Euro and pending legal proceedings. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: business and economic conditions and growth in the

---

computing industry in various geographic regions; changes in end user demand due to use of the Internet; changes in customer order patterns; competitive factors such as rival chip architectures and manufacturing technologies, competing software-compatible microprocessors and acceptance of new products in specific market segments; pricing pressures; development and timing of the introduction of compelling software applications; continued success in technological advances, including development and implementation of new processes and strategic products for specific market segments; execution of the manufacturing ramp, including the ramp of the Pentium 4 processor; the ability to grow new networking, communications, wireless and other Internet-related businesses and successfully integrate and operate any acquired businesses; impact of events outside the United States, such as the business impact of fluctuating currency rates or unrest or political instability in a locale, such as unrest in Israel; unanticipated costs or other adverse effects associated with processors and other products containing errata (deviations from published specifications); and litigation involving antitrust, intellectual property, consumer and other issues.

We believe that we have the product offerings, facilities, personnel, and competitive and financial resources for continued business success, but future revenues, costs, margins and profits are all influenced by a number of factors, including those discussed above, all of which are inherently difficult to forecast.

Exhibit 21

INTEL CORPORATION

SUBSIDIARIES
(All 100% Owned)

Subsidiaries of the Registrant	State or other Jurisdiction of Incorporation
Componentes Intel de Costa Rica, S.A.	Costa Rica
DSP Communications, Inc.	Delaware, USA
Dialogic Corporation	New Jersey, USA
GIGA A/S	Denmark
Intel Commodities Limited	Cayman Islands
Intel Corporation (UK) Limited	United Kingdom
Intel Electronics Limited	Israel
Intel International BV	Netherlands
Intel Ireland Limited	Cayman Islands
Intel Kabushiki Kaisha	Japan
Intel Massachusetts, Inc.	Delaware, USA
Intel Overseas Corporation	California, USA
Intel Products (M) Sdn. Bhd.	Malaysia
Intel Puerto Rico, Inc.	California, USA
Intel Semiconductor Limited	Delaware, USA
Intel Technology Phils, Inc.	Philippines
Intel Technology Sdn. Berhad	Malaysia
Level One Communications, Inc.	Delaware, USA
Mission College Investments Limited	Cayman Islands

Exhibit 23

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Intel Corporation of our report dated January 15, 2001, included in the 2000 Annual Report to Stockholders of Intel Corporation.

Our audits also include the financial statement schedule of Intel Corporation listed in Item 14(a). This schedule is the responsibility of the company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-10392, 2-73464, 2-56648, 33-33983, 2-90217, 33-29672, 33-41771, 33-63489, 333-20951, 333-24229, 333-45391, 333-45395, 333-67537, 333-93057, 333-90807, 333-77279, 333-75163, 333-82387, 333-84247, 333-88251, 333-96255, 333-33188, 333-34154, 333-36526, 333-38134, 333-39336, 333-39422, 333-42408, 333-46220, 333-49694, 333-49696; and Form S-3 Nos. 33-20117, 33-54220, 33-58964, and 33-56107) of our report dated January 15, 2001, with respect to the financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Intel Corporation.

San Jose, California
March 9, 2001