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

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 29, 2001.

☐ **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:

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 ☒ 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 22, 2002
$197.9 billion
6,703 million shares of common stock outstanding as of February 22, 2002

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of Annual Report to Stockholders for fiscal year ended December 29, 2001—Parts I, II and IV.
(2) Portions of the registrant's proxy statement relating to its 2002 Annual Stockholder's Meeting, to be filed subsequently—Part III.

PART I **

ITEM 1. BUSINESS

INDUSTRY

We are the world's largest semiconductor chip maker, supplying the computing and communications industries with chips, boards, systems and software building blocks that are integral to computers, servers, and networking and communications products. We offer products at various levels of integration, allowing our customers to create advanced computing and communications systems. Our mission is to be the preeminent building block supplier to the worldwide Internet economy.

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 developments in semiconductor design and manufacturing have made it possible to decrease the size of circuits etched into silicon, permitting more transistors to be used on each individual chip or die. This generally allows for more chips to be made from each silicon wafer, resulting in smaller and faster microprocessors and other semiconductor products that consume less power and cost less to manufacture.

We were incorporated in California in 1968 and reincorporated in Delaware in 1989.

PRODUCTS

Our major products include: microprocessors, chipsets, boards, networking and communications products such as Ethernet network interface cards and network processors, embedded control chips, and flash memory used in cellular handsets and handheld computing devices, as well as cellular baseband chipsets.

Our major customers are:

- original equipment manufacturers (OEMs) who make computer systems, cellular handsets and handheld computing devices, telecommunications and networking communications equipment, and peripherals;
- PC and network communications products users (including individuals, large and small businesses, and service providers) who buy Intel's PC enhancements, networking products and business communications products through reseller, retail, e-Business and OEM channels throughout the world; and
- other manufacturers, including makers of a wide range of industrial and communications equipment.

Intel, Intel Inside, Intel NetBurst, Intel Xeon, Intel StrataFlash, Intel Xscale, Intel Play, Intel SpeedStep, Intel 386, Intel 486, Pentium, Pentium III, Pentium III Xeon, Celeron, Itanium, Xircom, VTune, and i960 are trademarks or registered trademarks of Intel Corporation or its subsidiaries in the United States or other countries. StrongARM is licensed to Intel by ARM, Ltd.

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

** Page references to the 2001 Annual Report to Stockholders under Items 1 and 2 in Part I; Items 5, 6, 7, 7A and 8 in Part II; and Item 14 in Part IV relate to the bound, printed version of the annual report, not to the electronic version appearing at the Intel Internet site (www.intc.com/intel/annual01/). However, all data referred to also appears in the electronic version.

We are organized into four operating segments according to our various product lines: the Intel Architecture business, consisting of the Desktop Platforms Group, the Mobile Platforms Group and the Enterprise Platforms Group; the Intel Communications Group; the Wireless Communications and Computing Group; and the New Business Group. We are reporting three segments for 2001. The New Business Group is not a reportable segment and is included in the "all other" category for segment reporting purposes in the footnotes to our financial statements.

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 pages 35 and 36 of Intel's 2001 Annual Report to Stockholders and "Management's discussion and analysis of financial condition and results of operations" on pages 13 through 19 of the 2001 Annual Report is incorporated by reference.

Intel Architecture Business

The Intel Architecture business develops platform solutions around our microprocessors and chipsets 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. Our strategy for desktop and mobile platforms is to introduce ever higher performance microprocessors and chipsets, tailored for the different market segments of the worldwide computing market, using a tiered branding approach.
- 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 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. Our strategy for the server platform is to provide higher performance processors and the best price for performance for the various server and workstation market segments.

The Intel Architecture business's products include processors and board- and system-level products based on the IA-32 architecture. The IA-32 architecture encompasses both the Intel® NetBurst™ microarchitecture, introduced with the release of the Intel® Pentium® 4 processor, and the P6 microarchitecture (including the Intel® Celeron®, Pentium® III and Intel Pentium® III Xeon™ processors). We also offer a 64-bit processor for enterprise-class servers, the Intel® Itanium™ processor. In addition, we offer chipsets compatible with our microprocessor products. These chipsets improve ease of use for our OEM customers, provide new capabilities and enable system performance to scale as processor performance increases. To promote our customers' acceptance and deployment of these products, we also provide e-Business enabling solutions.

Net revenues for the Intel Architecture operating segment comprised over 80% of our consolidated net revenues in 2001.

Microprocessors. A microprocessor is the central processing unit (CPU) 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 factors in chip performance include memory storage and access speed. The memory stored on a chip is measured in bytes, with 1,024 bytes equaling a kilobyte (KB), 1.049 million bytes equaling a megabyte (MB) and 1.074 billion bytes equaling a 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.

In 2001, we began converting our microprocessor manufacturing from the 0.18-micron process technology to the 0.13-micron process technology. The width of individual transistors on a chip is measured in microns; one micron equals one millionth of a meter. 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 2001, we announced several new microprocessor products aimed at the various computing market segments ranging from value PCs (systems costing less than $800) to high-performance workstations and servers.

Desktop platform. As we exited 2001, the Pentium 4 processor became our highest volume desktop processor. The Pentium 4 processor is based on the Intel NetBurst microarchitecture, a collection of technologies that help deliver improved performance. These technologies are especially beneficial for creating and sharing digital media, processing digital video and audio, displaying 3D graphics, and accessing a variety of Internet technologies, including streaming video, speech processing and other multimedia processing tasks. Also, the Pentium 4 processor's 400-MHz system bus, the first in the industry, helps speed data transfer between the processor and main memory. During 2001, we introduced four versions of the Pentium 4 processor running at speeds of 1.6 GHz to 2.0 GHz. In January 2002, we introduced the first Pentium 4 processors built on our 0.13-micron manufacturing process technology running at up to 2.2 GHz. This technology allows us to reduce the die size by 30% and double the size of the on-chip L2 cache memory, which enhances the processor's performance.

In the value PC market segment, the Intel Celeron processor is designed to meet the core computing needs and affordability requirements common to many new PC users. During 2001, we introduced seven new versions of the desktop Celeron processor running at speeds ranging from 800 MHz to 1.2 GHz. The 800-MHz version, introduced in January 2001, was our first desktop value PC processor to incorporate a 100 MHz system bus. In October 2001, we introduced the Intel Celeron processor running at 1.2 GHz, the first value PC processor made on our 0.13-micron process technology. It integrates 256 KB of on-chip L2 cache, which helps improve overall performance. In January 2002, we introduced the Intel Celeron processor running at 1.3 GHz, our fastest offering to date for the desktop value PC market segment.

Mobile platform. We design our products 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 processors, we offer mobile processors at a variety of price/performance points, allowing our OEM customers to meet the demands of a wide range of notebook PC designs. These notebook designs include full size, thin and light, and ultra-portable. Within the ultra-portable design category, we provide specialized low voltage processors, which consume as little as one watt of power on average, and ultra low voltage processors, which consume as little as half a watt of power on average. Low voltage processors are targeted for the mini-notebook market segment while ultra low voltage processors are targeted for the sub-notebook market segment of mobile PCs weighing less than three pounds and measuring one inch in height.

During 2001, we introduced 29 mobile processors, providing solutions across a wide range of market segments. We introduced the Mobile Intel Pentium III Processor-M at speeds of up to 1.2 GHz; the low voltage mobile Pentium III processor running at up to 800 MHz; and the ultra low voltage Mobile Pentium III processor running at up to 700 MHz. Our Mobile Intel Pentium III processor features Intel® SpeedStep™ technology. When the user is disconnected from an AC power source, this technology allows the processor to switch automatically to a lower voltage and clock speed, extending the system's battery life. When the user plugs into an outlet or docking station, the chip automatically resumes full speed. We also introduced mobile Celeron processors ranging from 733 to 933 MHz,

aimed at the mobile value PC market segment, as well as low voltage mobile Celeron processors at 600 and 650 MHz and ultra low voltage mobile Celeron processors at 500 and 600 MHz.

In March 2002, we introduced the Mobile Intel Pentium 4 processor-M running at speeds up to 1.7 GHz. This new processor is designed to enable both consumer and business users to take full advantage of processing-intensive applications such as audio and video encoding, digital imaging, speech recognition, 3D content creation, games, multimedia and multi-tasking environments.

Server and workstation platforms. In 2001, we expanded our server product offerings in order to provide building blocks for solutions across a wide range of server market segments. In September 2001, we began shipping in volume Intel Pentium III Xeon processors for use in high-performance multiprocessing servers, which typically use between four and eight processors per system. These processors are also being used in servers with up to 32 processors. The Intel Pentium III Xeon processors running at 900 MHz feature 2 MB of on-die L2 cache.

For the workstation market segment, in May 2001, we introduced the first generation of Intel Xeon processors based on the Intel NetBurst microarchitecture, running at speeds of up to 1.7 GHz. These processors are targeted for high-performance and mid-range, dual-processor workstations. In September 2001, we introduced a 2.0 GHz version of the Intel Xeon processor based on the Intel NetBurst microarchitecture.

In October 2001, we introduced several new server building block products—boards, chassis and other server components—designed to help OEM system builders and product integrators build their servers around Intel processors. We designed seven server board and server chassis products to meet the specifications of a wide range of computing applications, from high-density, rack-mount server environments to e-mail servers, print servers and database servers.

In November 2001, we introduced a new ultra low voltage processor line for low power consumption, space-saving, "ultra-dense" servers. Ultra-dense servers are increasingly used in enterprise data centers and by Internet service providers to offer Web serving, firewall protection and Web caching. Our ultra low voltage Pentium III processor at 700 MHz runs at 1.1 volts, and includes 512 KB of on-chip cache memory.

In December 2001, we introduced our first server building block products aimed at the telecommunications server market segment. These carrier-grade products conform to stringent international telecommunications industry reliability requirements. They are designed to function in cold, fires, excessive heat and other extreme conditions. For this category, we offer dual-processor server platforms in 1U and 2U form factors (1U is a standard unit of measurement of 1.75 inches, used to describe the height of the system chassis). These systems are designed for carriers, telecommunications service providers and large corporations for use in core telecommunications and wireless infrastructure for high-speed, high-traffic networks.

In February 2002, we introduced the first Intel Xeon processor for servers, featuring Hyper-Threading technology and the Intel Netburst microarchitecture. Hyper-Threading is a new design that allows a single processor to manage data as if it were two processors by handling data instructions in parallel rather than one at a time. The new server platform can boost system performance for two-way systems significantly when compared against Intel-based platforms running on Pentium III Xeon processors. These systems are available at speeds of up to 2.2 GHz.

We also continued to advance our 64-bit processor for high-end servers and workstations, the Intel Itanium processor. This processor employs a new design philosophy called EPIC, Explicitly Parallel Instruction Computing. The Intel Itanium architecture combines a high degree of parallel computing with 64-bit addressing and extensive reliability features, for use in data-intensive applications, such as enterprise resource planning and intensive graphics modeling. In June 2001, we announced a multi-year agreement with Compaq Computer Corporation in which Compaq will transition its entire 64-bit server

product line to the Intel Itanium processor family. During 2001, more than 19 companies, including Compaq, Dell, Hewlett-Packard and IBM, offered more than 26 server and workstation models based on the Itanium processor. In December 2001, our OEM customers began shipping to end users their initial pilot systems based on our next-generation Itanium processor, codenamed "McKinley." We anticipate that this processor will be generally available in mid-2002.

Chipsets. Chipsets perform essential logic functions supporting the CPU, 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 bus specifications, 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. Our customers demand memory architecture alternatives, and as a result, we currently offer chipsets supporting Rambus* Dynamic Random Access Memory (RDRAM), Synchronous DRAM (SDRAM) and Double Data Rate DRAM (DDR).

To help computer makers speed their products to market, we design, manufacture and sell chipsets for each computing market segment. 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 $800.

In July 2001, we introduced the Intel® 830 Chipset family for mobile PCs based on the Mobile Pentium III Processor-M. The Intel® 830MP Chipset, introduced in July, supports external graphics. Later in the year, we also introduced two other chipsets in the family: the Intel® 830M Chipset, which provides high-performance integrated graphics, and the Intel® 830MG Chipset, which offers integrated graphics for lower cost systems. The mobile chipset family integrates a new deeper sleep, low-power mode to further conserve power and help prolong battery life.

In September 2001, we introduced the Intel®845 Chipset for Pentium 4 processor-based PCs. We targeted this chipset at the high-volume, mainstream consumer and corporate desktop PC market segment. The Intel 845 Chipset supports two memory formats, SDRAM and DDR. We also offer the high-performance Intel® 850 Chipset, providing dual RDRAM memory banks that complement the Pentium 4 processor's 400-MHz system bus for higher performance desktop PCs.

For workstation and server makers, we introduced in May 2001 the Intel® 860 Chipset, featuring dual RDRAM memory banks to complement the Intel Xeon processor's 400-MHz system bus. In February 2002, we introduced the Intel® E7500 Chipset which is optimized for the Intel Xeon processor and supports DDR memory technology. The E7500 enables twice the memory bandwidth over legacy SDRAM platforms. The new chipset is expected to accelerate memory access to increase platform performance and deliver new levels of performance for I/O intensive server applications.

In March 2002, we introduced the Intel® 845MP Chipset. The new chipset supports enhanced Intel SpeedStep technology, deeper sleep alert state and offers an external AGP 4X graphics support, a 400-MHz processor system bus, and DDR 266 MHz SDRAM.

Board-level products. To help proliferate our microarchitectures through all our computing market segments, we offer board-level products based on our microprocessors. While many of our OEM customers use our microprocessors as components in designing their own computer products, some also use board-level products that we design and build. OEMs may purchase products from us at this level of integration to speed their time-to-market and to direct their investments to other areas of their product lines. We provide board-level products to give our OEM customers flexibility by enabling them to choose whether to buy at the component or board level.

E-business solutions. To support and drive Intel architecture through the industry, in 2001, we broadened our engagements with developers and solutions providers to make it easier for end users to

deploy best-of-class e-Business solutions on Intel architecture. Products include Intel® C/C++ and Fortran compilers, VTune™ Performance Analyzer and Intel® Performance Libraries that take full advantage of the latest performance and capabilities of our microprocessors. As part of our Early Access Program, developers have worldwide access to our online technical references with Intel® Developer Services. This program's services include technical consultants in data centers worldwide providing application porting, tuning, optimization, scaling, benchmarking and integration of software solutions.

Sales and gross margin. During 2001, sales of microprocessors based on the P6 microarchitecture and related board-level products and chipsets comprised a majority of our consolidated net revenues and a substantial majority of our gross margin. For the same period, sales of products based on the Intel NetBurst microarchitecture and related products were a significant and rapidly increasing portion of our consolidated net revenues and gross margin. For 2000 and 1999, sales of microprocessors based on the P6 microarchitecture and related products comprised a substantial majority of our consolidated net revenues and gross margin.

Intel Communications Group

The Intel Communications Group provides products for the networking and communications platform based on three focus areas that we believe to be defining trends for the Internet: Ethernet connectivity products, optical components and network processing components that provide programmable building blocks for modular networking infrastructure. We also offer embedded control chips for use in laser printers, imaging products, automotive systems and other applications.

We provide products to telecommunications and networking OEMs, Internet service carriers and providers and makers of a wide range of industrial and communications equipment who have seen a significant impact from the worldwide economic slowdown. In particular, we continue to be affected by the ongoing slump in the telecommunications industry. These market conditions impact our ability to successfully execute our strategies, as we are dependent in part on the capital expenditure levels of carriers and service providers, as well as on component purchases by our OEM customers, growth in the demand for Internet infrastructure, and acceptance of our network architecture. In addition, the success of our strategies will be affected by our ability to integrate recent acquisitions and get new products to market in a timely manner.

Net revenues for the Intel Communications Group operating segment comprised approximately 10% of our consolidated net revenues for 2001.

Ethernet connectivity products. Ethernet is an industry-standard technology used to translate and transmit data in packets across networks. As Ethernet expands from the traditional local area network (LAN) environment into the wireless LAN market segment, the metropolitan area network (MAN) and the networked storage market segment, we are

expanding our Ethernet product portfolio to address these emerging market segments. In storage, we are developing products that enable storage resources to be added to any location on an Ethernet network. For the MAN market segment, we offer Ethernet products at multiple levels of integration to provide a low cost solution with increased speed and signal transmission distance (commonly referred to as "reach").

In 2001, we introduced the world's first single-chip Gigabit Ethernet controller, which runs up to 10 times faster than the previous industry-standard Fast Ethernet product. Gigabit Ethernet networks allow the transmission of 1 billion individual bits of information per second. By contrast, standard Ethernet networks transmit 10 or 100 million bits of information per second (Mbps, or megabits per second). The Intel® 82544EI Gigabit Ethernet Controller is more than 50% smaller than previous generations of controllers, uses 50% less power and generates less heat. Competing Gigabit Ethernet products require a complex board-level design to accommodate the multiple chips needed to carry out the same functions as Intel's single-chip solution. In 2001, we also introduced the Intel® 82544GC

Gigabit Ethernet Controller, in a reduced-size package aimed at ultra-dense or space-constrained servers.

Other products for Gigabit Ethernet applications introduced in 2001 include the 16-port Intel® Media Switch IXE5416 Gigabit Device designed to help build faster plug-and-play Ethernet switches; the Intel® PRO/1000 T Desktop Adapter and Intel® PRO/1000 XT Server Adapter, designed to help IT managers upgrade existing Ethernet (10 Mbps) or Fast Ethernet (100 Mbps) networks; and the Intel® PRO/1000 T IP Storage Adapter, designed to connect storage devices located anywhere on an Ethernet network.

In February 2002, we announced the introduction of high-performance, low-power processors for networking and storage equipment based on Intel® XScale™ technology and highly integrated gigabit Ethernet controllers. We also announced three new single-chip Gigabit Ethernet products for desktop PCs, workstations and servers that are up to 45% smaller and use less power than previous products. The products include a new single port, single-chip Gigabit Ethernet controller for workstations and the world's first-dual port, single-chip controller enabling server manufacturers to add two Gigabit Ethernet network connections in the same amount of space previously required for a single connection. In addition, we introduced the world's first Gigabit Ethernet controller optimized for desktop PCs, which helps reduce the cost of deploying Gigabit Ethernet network connections in those systems by up to 50%.

In March 2001, we completed our acquisition of Xircom, Inc., a supplier of PC cards and other products used to connect mobile computing devices to corporate networks and the Internet.

During 2001, we introduced several products for wireless networking connectivity. In June 2001, we expanded our family of high-speed, wireless LAN products to include the Intel® Wireless Gateway for home and small offices and the Xircom® Wireless Ethernet Module for Palm m500* series handheld devices. In November 2001, we launched the industry's first suite of wireless networking products based on the advanced 802.11a specification, a standard set by the Institute of Electrical and Electronic Engineers (IEEE), which is much faster than the previous IEEE 802.11b specification. Our products based on the 802.11a specification provide better exchange of data between computing devices and networks and include wireless hubs, adapters and software.

Optical components. For the MAN and wide area network (WAN) market segments, we also provide Synchronous Optical Network (SONET), Synchronous Digital Hierarchy (SDH) and Ethernet-based opto-electronic components. Opto-electronic components are electrical components used in optical networking equipment, and SONET/SDH and Ethernet are the primary optical data transport standards in the telecommunications industry.

In February 2001, we introduced optical networking components based on Forward Error Correction (FEC) technology, which enables makers of telecommunications equipment to extend the reach of their service provider customers' optical networks and deliver new services. In October 2001, we introduced a new optical networking subsystem designed to deliver 10-Gigabit Ethernet and OC-192 SONET/SDH communications on a single line card.

In the first half of 2001, we acquired companies with key capabilities and technologies for producing opto-electronic components. Cognet, Inc. develops high-speed electronic components for 10-Gigabit Ethernet optical modules. LightLogic, Inc. makes advanced integrated opto-electronic components that use a highly automated and sophisticated manufacturing process to combine lasers, micro-optics and high-speed electronics into integrated devices called transponders.

Network processing components. The Intel® Internet Exchange Architecture (Intel® IXA) provides a flexible platform for the networking and communications industry to build faster, more intelligent networks using reprogrammable silicon. Our network processor products consist of advanced, programmable devices that are used in networking equipment to rapidly manage and direct data

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moving across the Internet and corporate networks. In 2001, we introduced new members of the Intel® IXP1200 network processor family, which has already been chosen by our customers for use in more than 175 application designs.

In March 2001, we introduced a low power 700-MHz version of the Intel Pentium III Processor, aimed at applied computing communications applications in which heat and constrained space are factors. In December 2001, we introduced the first in a line of communications chips specifically designed for the embedded industry. The Intel® 82801E Communications I/O Controller Hub (C-ICH) integrates multiple communications ports, eliminating the need for separate networking chips that would otherwise be required.

In April 2001, we acquired VxTel Inc., a semiconductor company that has developed Voice over Packet (VoP) products that deliver high-quality voice and data communications over next-generation optical networks. In June 2001, we introduced a suite of communications products, including silicon components, software and reference designs for building the systems used to transmit voice communications over the Internet. VoP is a critical technology for enabling the transition from circuit-switched networks, such as traditional telephone and wireless networks, to packet-based networks, such as the Internet. We expect that our VoP technology will allow telecommunications service providers to offer more services, such as voice, fax and data applications, at higher density and lower cost than current services.

In February 2002, we unveiled a family of network processors based on the advanced Intel XScale technology. The new Intel XScale technology-based products include the industry's broadest line of network processors, which are up to 16 times faster than our previous offerings. The network processors are designed for applications extending from the home and office to service providers' central switching office and include the Intel® IXP2800 network processor for network core applications, such as ultrahigh-speed switch/routers; the Intel® IXP2400 network processor for multi-service switches and similar equipment at the network edge; and the Intel® IXP425 network processor for equipment that brings digital subscriber line (DSL), cable Internet service and wireless networking to homes and offices.

Embedded control chips. Our embedded control chips are used in a broad range of applications including laser printers, imaging products, storage media, point-of-sale systems, industrial automation equipment, and automotive systems. Product families include the Intel®186, Inte1386™ processor and Inte1486™ processor, the i960® processor and 8-bit and 16-bit microcontrollers.

Wireless Communications and Computing Group

The Wireless Communications and Computing Group provides component-level hardware and software for digital cellular communications and other applications requiring both low-power processing and high performance. Our strategy is to deliver complete solutions that enable quick deployment of applications and services for wireless Internet and handheld computing devices. Our current products for the handheld platform include flash memory, processors based on the Intel® StrongARM* processor and Intel XScale microarchitecture, and cellular baseband chipsets.

In the market segment for handheld computing devices, we sell flash memory, baseband chipsets and processors to OEMs of cellular handsets and we sell flash memory and processors to OEMs of personal digital assistants (PDAs). Growth in this market segment is dependent on the increased use of feature-rich handsets and data-intensive applications. Growth for flash memory products will also depend on the attractiveness of the latest features of cellular handset products, including 2.5G mobile wireless devices. These 2.5G devices are based on the wireless technology usually associated with data transfer rates faster than 14.4 thousand individual bits of information per second (Kbps, or kilobits per second), but slower than 384 Kbps. Our strategy is in part dependent on the willingness of current owners of handset products to upgrade to the latest versions of these devices.

At the heart of our wireless product strategy is the Intel® Personal Internet Client Architecture (Intel® PCA), an open architecture platform that describes the separation of communication and application building blocks for data-enabled cellular phones and portable handheld devices. By separating the communication and application elements within a device, Intel PCA should allow for faster time-to-market for our customers and a standard, scalable platform for application development. In August 2001, we launched the Intel® Personal Internet Client Architecture Developer Network which features more than 400 hardware and software design tools and applications, and is available to help deliver standards-based software and hardware solutions. By the end of 2001, more than 800 companies were members of the network.

Net revenues for the Wireless Communications and Computing Group operating segment comprised approximately 8% of our consolidated net revenues for 2001.

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. Although flash memory is currently used predominantly in mobile phones and PDAs, it is also found in common consumer products, including MP3 music players, handheld voice recorders and digital answering machines, as well as industrial products.

Our Intel® StrataFlash® memory technology provides a cost-effective, single-chip solution for code execution and data storage. In September 2001, we introduced a 3-volt synchronous Intel StrataFlash memory, which operates up to four times faster than traditional flash memory. In October 2001, we produced the industry's first flash memory built on the 0.13-micron manufacturing process technology and plan to beginning shipping these components to customers in the second quarter of 2002. This new flash chip is nearly 50% smaller and consumes less power than its 0.18-micron predecessor, making it ideal for cell phones and other electronics equipment for which small form factor and low power consumption are critical. By the end of 2001, our customers had chosen Intel StrataFlash memory for use in more than 1,200 application designs, in products such as cell phones, PDAs and set-top boxes.

Processors for handheld computing devices. Building on Intel StrongARM technology, which we license from ARM, Ltd., Intel Xscale microarchitecture offers low-power consumption (consuming as little as 1/10,000 of a watt) and fast clock speeds and enables a new generation of handheld and cellular devices such as those based on the Microsoft Pocket PC 2002* operating system. Future microprocessors based on the Intel Xscale technology will be designed to scale between high performance and lower power consumption. In October 2001, we announced that six major manufacturers of PDAs had selected the Intel StrongARM SA-1110 processor to power their next generation of handheld communications devices. The Intel SA-1110 processor typically uses less than one half watt of power, greatly extending battery life for handheld devices while providing powerful performance for a variety of business, multimedia and Internet applications.

In February 2002, we introduced the Intel® PXA250 and PXA210 chips, which will enable mobile phones and handheld computers to deliver music, video and games, as well as the latest enterprise applications under development. Also in February 2002, Intel and Microsoft announced an outline of the details of their collaboration to optimize Microsoft Windows CE.NET* for Intel PXA250 and Intel PXA210 applications processors based on the Intel XScale microarchitecture in support of the Intel PCA. The effort will enable hardware and software developers to create powerful, connected mobile devices that utilize the latest browsing, multimedia and wireless capabilities while maximizing battery life.

Cellular baseband chipsets. We offer baseband chipsets for designing multi-mode, multi-band wireless handsets. Based on DSP technology, our chipsets support multiple wireless standards and deliver enhanced voice quality and high integration, while reducing power consumption and costs. We

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offer the Intel® D5205 TDMA Baseband Chipset, a compact two-chip solution, and the Intel® 5206 TDMA Baseband Chip, a compact single-chip solution both for dual-mode cellular and Personal Communication Services (PCS) band applications. We also offer the Intel® D5314 PDC Baseband Chip, a compact single-chip solution for dual rate (full and half rate) baseband processing for personal digital cellular handheld phones.

New Business Group

The New Business Group operating segment is chartered to develop and grow new businesses around our core capabilities. The group's current investments include Web hosting services, software and semiconductor products.

In 2001, Intel Online Services, Inc. operated eight data centers offering Web hosting and data center services in the United States, Europe, India, Japan, China, Korea and Australia.

In 2001, we made the decision to exit the consumer products marketplace and consequently began to phase out our Consumer Product Division, which provided PC accessories such as the Intel® Pocket PC Camera, the Intel® Personal Audio Player 3000 and the Intel® Play™ Movie Creator. We do not expect the phase-out of this business to have a material impact on Intel's sales or gross margin.

MANUFACTURING, ASSEMBLY AND TEST

The majority of our wafer manufacturing, including microprocessor, flash memory and networking silicon fabrication, is conducted within the United States at our facilities in New Mexico, Arizona, Oregon, Colorado, California and Massachusetts. A significant portion of our wafer manufacturing, primarily microprocessor and chipset fabrication, is conducted outside the United States at facilities in Israel and Ireland. As of year-end 2001, the Israel and Ireland facilities accounted for approximately 30% of our total wafer fabrication.

As of year-end 2001, a substantial majority of our microprocessors and chipsets were manufactured using our 0.18-micron process technology in Arizona, New Mexico, Israel, and Ireland. During the year, we ramped our 0.13-micron manufacturing process on 200mm (8-inch) wafers at three existing facilities in Oregon, California and Massachusetts, as well as a newly constructed facility in Arizona. These factories produce our most advanced microprocessors, including the latest Pentium 4 processors. The 0.13-micron process technology features structures smaller than 1/1,000th the thickness of a human hair (0.18 micron is 1/500th the thickness of a human hair).

In December 2001, we began manufacturing 0.13-micron microprocessors in Oregon on 300mm (12-inch) wafers and in February 2002 began shipping products to customers. A second 300mm wafer facility is scheduled to come on line in New Mexico in the second half of 2002. We expect the larger 300mm wafer size to cut die manufacturing costs by approximately 30% when fully implemented.

During the second quarter of 2001, we completed retrofitting changes, process improvements, and equipment installations and began manufacturing flash memory using our 0.18-micron process technology at a Colorado facility that we acquired in 2000. In addition to this Colorado site, we also manufacture flash memory in Oregon, New Mexico and California using our 0.18-micron process technology.

We perform a substantial majority of our components assembly and testing, including assembly and testing for microprocessors, at facilities in Malaysia, the Philippines and Costa Rica. We also perform components assembly and testing for chipsets and flash memory at a facility in China. During the third quarter of 2001, we announced an additional investment in the assembly and test facility in China, and we will use this latest investment to validate, test and assemble the Intel 845 Chipset for the Pentium 4 processor platform. With the expansion, we have quadrupled the facility's size and enhanced the flash memory chip assembly and test capabilities.

We also manufacture microprocessor- and networking-related board-level products and systems at facilities in Malaysia, Washington and California. During the first half of 2001, we phased out our board manufacturing operations in Puerto Rico for cost competitive reasons.

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

We have thousands of suppliers providing our various material and service needs. We seek, where possible, to have several sources of supply for everything, but on limited occasions we may rely on a single or limited number of suppliers. In those cases, we develop and implement plans and actions to minimize the exposure that would result from a disruption at that supplier. We also typically have multiple factories at multiple sites around the world producing our leading and highest margin products. However, some other products are only produced in one factory, and again we seek, through other actions and plans, to minimize the exposure that would result from a disruption at that factory.

Manufacturing of integrated circuits is a complex process. Normal manufacturing risks include errors and interruptions in the production process, defects in raw materials and disruptions at suppliers, 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.

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 on our operations. In addition to normal risks associated with manufacturing, assembly and test, our operations outside the United States are subject to certain additional exposures. These risks include currency controls and fluctuations; tariff, import and other related restrictions and regulations; possible disruption in commercial activities related to terrorist activity and armed conflict in the United States, Israel and other locations; and civil or military unrest or political instability in a locale. To date, we have not experienced significant difficulties related to these foreign business risks.

Following the attacks on the World Trade Center in New York City, property insurance underwriters deleted terrorism coverage from their policies. We are exploring specialty markets that offer this coverage, however, the cost may be prohibitive. In addition, our property insurance coverage levels have decreased and our retained risk exposure from uninsured losses has increased. We have not made any material change to our operations as a result of the reduced coverage. Availability and cost of coverage have historically changed as the insurance industry reacted to various market forces and we will consider purchasing additional coverage if and when the availability and pricing become more favorable.

For information regarding environmental proceedings related to certain facilities, see the information under the heading "Legal Proceedings" in Part I, Item 3 of this Form 10-K.

EMPLOYEES

As of December 29, 2001, we employed approximately 83,400 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 worldwide. 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 2,000 customers worldwide in 2001, including customers of our acquired companies, and sales to one customer, Dell Computer Corporation, contributed approximately 14% to our total sales in 2001. A substantial majority of the sales to this customer consisted of Intel Architecture products. No other customer accounted for more than 10% of our total revenues. Sales to our five largest customers accounted for approximately 38% 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 pages 35 and 36 of our 2001 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, mobile and server platforms, and networking and communications platform 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 on 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. Worldwide, these competitors range in size from large multinational companies to smaller companies competing in specialized market segments.

The Intel Architecture business consists of the Desktop Platforms Group, the Mobile Platforms Group and the Enterprise Platforms Group. Our strategy for the desktop and mobile 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. Our strategy for the server platform is to provide higher performance processors and the best price for performance for the

various market segments. In line with our strategies, we seek to develop higher performance microprocessors based on the Intel NetBurst microarchitecture specifically for each computing market segment.

Our financial results are substantially dependent on sales of microprocessors by the Intel Architecture operating segment. 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 4 processor competes with existing and future products in the performance desktop and entry-level workstation market segment. The Mobile Intel Pentium 4 processor competes with existing and future products in the mobile computing market segment. We have experienced an increase in the competitive product offerings in the performance desktop market segment and recently in the mobile market segment. The Pentium III Xeon processor based on the P6 architecture and the Intel Xeon processor based on the Intel Netburst architecture compete in the mid-range and high-end server and workstation market segments. The Intel Itanium processor competes in the enterprise-class server market segment. These three processors all compete with established products based on rival architectures.

Many of our competitors are licensed to use our patents. Furthermore, our competitors can design competing products and avoid our patent rights by using certain foundry services that have broad licenses with us that, under current case law, permit them to pass our patent rights on to others. 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/or offering rebates and other incentives 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 Intel Communications Group, our strategy for the networking and communications platform is based on three focus areas: Ethernet connectivity, optical components and network processing components. In the these areas, we face competition from both established and emerging companies and competitors use aggressive product and acquisition plans in an effort to achieve leading-edge market positions. Our products also 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 wireless communications business, our strategy is to deliver complete solutions that enable quick deployment of applications and services for wireless Internet and personal information devices. For these segments, we offer flash memory products, processors based on the Intel StrongARM processor and Intel Xscale™ microarchitecture and baseband chipsets. In supplying these products, our Wireless Communications and Computing Group faces competition from the products of established companies in the flash memory market segment. We cannot predict whether our products will continue

to compete with existing competitors in the flash memory market segment and compete with new entrants in the applications processor and baseband chipset market segments.

RESEARCH AND DEVELOPMENT

We have maintained our competitive position 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; manufacturing, packaging and testing processes, as well as improving existing products and lowering costs.

We perform a substantial majority of the design and development of components and other products 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, Malaysia, India, China and Russia. We also maintain research and development facilities in California and Oregon that are focused on improving manufacturing processes, as well as a facility in Arizona that is dedicated to improvements in manufacturing, assembly and test processes.

During the second quarter of 2001, our customers began shipping servers and workstations based on the Intel Itanium processor, the first in the family of our 64-bit Itanium architecture products. The introduction of the Itanium processor is an important technology landmark for both the end user and IT supplier community.

During the third quarter of 2001, we announced two technology breakthroughs, including the TeraHertz transistor and Hyper-Threading technology. Based on new structures and materials, a TeraHertz transistor is designed to overcome a number of the technical barriers to continued industry progress according to what is referred to as "Moore's Law". Moore's Law has accurately predicted that the number of transistors that can be placed on a computer chip will double approximately every couple of years. When used in future technology generations, TeraHertz transistors are expected to enable chips with 25 times the number of transistors of today's microprocessors, operating at 10 times the speed, with no increase in power consumption or heat dissipation.

Hyper-Threading technology is a new processor design that we expect will significantly improve system performance for servers. Our simultaneous multi-threading design allows a single processor to manage data as if it were two processors by handling data instructions in parallel rather than one at a time. Using Hyper-Threading technology, data instructions are "threaded" as parallel streams for processing.

In September 2001, we announced the creation of new organization called the Corporate Technology Group (CTG), which will provide research and technology direction across product lines, and will work with the industry to create and deliver key industry specifications, standards and technologies. As part of the creation of CTG, we also announced the appointment a Chief Technology Officer.

In addition to microprocessor and chipset research and development, we have research and development initiatives in networking and communications products, wireless devices, connected peripherals and other areas. These research and development initiatives include projects surrounding the Intel IXA architecture for networking and communications products and the Intel PCA architecture for wireless devices. We have also acquired ongoing research and development activities in these areas with businesses acquired in 2001.

Our expenditures for research and development were $3,796 million in fiscal 2001, $3,897 million in fiscal 2000 and $3,111 million in fiscal 1999. These amounts exclude charges for purchased in-process research and development related to acquisitions of $198 million for fiscal 2001, $109 million for fiscal

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2000 and $392 million for fiscal 1999. The decline in spending between 2001 and 2000 reflects the impact of cost containment programs including reductions in discretionary spending on travel-related expenses.

At December 2001, we had approximately 21,000 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 2001, we acquired 11 businesses for more than $1.7 billion, augmenting our capabilities in a number of strategic areas. The companies acquired included Xircom, VxTel, LightLogic and Cognet, which are discussed under the "Products" heading in Part I, Item 1 of this Form 10-K in connection with the Intel Communications Group.

Under our Intel Capital program, we also make equity investments to further our strategic objectives and to support our key business initiatives for the 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 to be the preeminent supplier of building blocks to the worldwide Internet economy. 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.

At December 29, 2001, our strategic investment portfolio was valued at approximately $1.7 billion. A majority of the portfolio was comprised of non-marketable equity securities. Our ability to recover our investments in non-marketable equity securities and to earn a return on these investments is largely dependent on equity market conditions and the occurrence of liquidity events, such as initial public offerings, mergers and private sales. All of these factors are difficult to predict, particularly in the current economic environment. In addition, under our accounting policy, we are required to review all of our investments for impairment. For non-marketable equity securities, this requires significant judgment, including assessment of the investees' financial condition, the existence of subsequent rounds of financing and the impact of any relevant contractual preferences, as well as the investees' historical results of operations, and projected results of cash flows.

INTELLECTUAL PROPERTY AND LICENSING

Intellectual property rights that apply to our various products and services include patents, copyrights, trade secrets, trademarks and mask work 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. See also the information 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 on 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, and we have registered numerous copyrights with the United States Copyright Office. In some non-U.S. jurisdictions, the ability to protect or copyright software in is not clear, but 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 mask works 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 also 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. See also the information 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. We also refer to the information 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 29, 2001):

Craig R. Barrett (age 62) has been a director of Intel since 1992 and Chief Executive Officer since 1998. Prior to that, Dr. Barrett was President from 1997 to January 2002, Chief Operating Officer from 1993 to 1998 and Executive Vice President from 1990 to 1997.

Andrew S. Grove (age 65) 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, President from 1979 to 1997 and Chief Operating Officer from 1976 to 1987.

Paul S. Otellini (age 51) has been President and Chief Operating Officer since January 2002. Prior to that Mr. Otellini was Executive Vice President and General Manager, Intel Architecture Group, from 1998 to January 2002; 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.

Leslie L. Vadasz (age 65) has been a director of Intel since 1988 and Executive Vice President and President, Intel Capital, since 2000. Prior to that, Mr. Vadasz was Senior Vice President and Director of Corporate Business Development from 1991 to January 2000. Mr. Vadasz will retire from the Board of Directors in May 2002.

Andy D. Bryant (age 51) 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 45) has been Executive Vice President and General Manager, Intel Communications Group, since March 2001. Prior to that Mr. Maloney was Executive Vice President and Director, Sales and Marketing Group, from January 2001 to March 2001; Senior Vice President and Director, Sales and Marketing Group, from 1999 to January 2001; Vice President and Director, Sales and Marketing Group, from 1998 to 1999 and Vice President, Sales, and General Manager, Asia-Pacific Operations, from 1995 to 1998.

Michael R. Splinter (age 51) has been Executive Vice President and General Manager, Sales and Marketing Group, since March 2001. Prior to that Mr. Splinter was Executive Vice President and General Manager, Technology and Manufacturing Group, from January 2001 to March 2001; Senior Vice President and General Manager, Technology and Manufacturing Group, from 1999 to January 2001; Vice President and General Manager, Technology and Manufacturing Group, from 1998 to 1999 and Vice President and Assistant General Manager, Technology and Manufacturing Group, from 1996 to 1998.

F. Thomas Dunlap, Jr. (age 50) 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 47) has been Vice President and Treasurer since 1990.

Robert J. Baker (age 46) has been Vice President and General Manager, Technology and Manufacturing Group, since March 2001 and Vice President and General Manager of Components Manufacturing from November 2000 to March 2001. Prior to that, Mr. Baker managed Fab Sort Manufacturing from 1999 to 2000 and Microprocessor Components Manufacturing from 1996 to 1999.

Ronald J. Smith (age 55) has been Senior Vice President and General Manager, Wireless Communications and Computing Group, since January 2001 and Vice President, Wireless Communications and Computing Group, from 1999 to January 2001. Prior to that, Mr. Smith was Vice President and General Manager, Computing and Enhancement Group, from 1996 to 1999.

ITEM 2. PROPERTIES

At December 29, 2001, we owned the major facilities described below:

No. of Bldgs.	Location	Total Sq. Ft.	Use
119	United States	25,487,000	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	1,962,000	Wafer fabrication, warehousing and administrative offices.
15	Israel *(A)*	1,778,000	Wafer fabrication, research and development, warehousing and administrative offices.
13	Malaysia *(B)*	1,763,000	Components assembly and testing, boards and systems manufacturing, 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.
4	People's Republic of China *(D)*	513,000	Components assembly and testing, warehousing 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.

(A) *A lease on a portion of the land used for these facilities expires in 2039.*
(B) *Leases on portions of the land used for these facilities expire in 2003 through 2057.*
(C) *Leases on portions of the land used for these facilities expire in 2008 through 2046.*
(D) *A lease on a portion of the land used for these facilities expires in 2046.*

As of December 29, 2001, we also leased 79 major facilities in the United States totaling approximately 3,047,000 square feet and 62 facilities in other countries totaling approximately 2,122,000 square feet. These leases expire at varying dates through 2019 and include renewals at our option. Leased facilities increased in 2001, primarily due to the addition of properties leased by companies acquired by Intel. 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 or we have plans to utilize it. In addition, we completed the phase-out of our manufacturing operations at a 426,000 square foot facility in Puerto Rico, and we are seeking to dispose of this facility. We also have approximately 2.2 million square feet of building space in the United States and approximately 1.8 million square feet of building space in various international sites under various stages of construction for manufacturing, assembly and test and administrative purposes. For information regarding environmental proceedings related to certain facilities, see the information under the heading "Legal Proceedings" in Part I, Item 3 of this Form 10-K.

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 pages 35 and 36 of our 2001 Annual Report to Stockholders is incorporated by reference.

ITEM 3. LEGAL PROCEEDINGS

A. LITIGATION

Intergraph Corporation v. Intel
U.S. District Court, Northern District of Alabama, Northeastern Division
U.S. District Court, Eastern District of Texas

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 and approximately $350 million for alleged state law violations, plus prejudgment interest. Intel has counterclaimed, alleging infringement of seven Intel patents, breach of contract and misappropriation of trade secrets. In March 2000, the District Court granted Intel's motion for summary judgment on Intergraph's federal antitrust claims, and in June 2001, the United States Court of Appeals for the Federal Circuit sustained the District Court's ruling. Intergraph's patent and state law claims remain at issue in the trial court. The company disputes the plaintiff's claims and intends to defend the lawsuit vigorously.

In August 2001, Intergraph filed a second suit in the U.S. District Court for the Eastern District of Texas, alleging that the Intel Itanium processor infringes two Intergraph microprocessor-related patents, and seeking an injunction and unspecified damages. Intergraph has withdrawn its request for damages and, consequently, Intergraph's sole requested remedy is an injunction that would prohibit Intel from making, using or selling Itanium processors. If granted, such an injunction would significantly limit Intel's ability to succeed in the enterprise server market segment for 64-bit processors. The Texas suit is currently scheduled for trial before Judge Ward, sitting without a jury, in July 2002. The company disputes plaintiff's claims and intends to defend the lawsuits vigorously.

Edward Harris, et al v. Intel Corporation, et al
U.S. District Court, Northern California

On May 1, 2000, various plaintiffs filed a class-action lawsuit in the United States District Court for the Northern District of California, alleging violations of the Securities Exchange Act of 1934 and U.S. Securities and Exchange Commission (SEC) Rule 14d-10 in connection with Intel's acquisition of DSP Communications, Inc. The complaint alleges that Intel and CWC (Intel's wholly owned subsidiary at the time) agreed to pay certain DSP Communications insiders additional consideration of $15.6 million not offered or paid to other stockholders. The alleged purpose of this payment to the insiders was to obtain DSP Communications insiders' endorsement of Intel's tender offer in violation of the anti-discrimination provision of Section 14(d)(7) and Rule 14d-10. The plaintiffs are seeking unspecified damages for the class, and unspecified costs and expenses. The suit is currently scheduled for trial in July 2002; however, the presiding judge has retired and the case has been reassigned. The company disputes the plaintiffs' claims and intends to defend the lawsuit vigorously.

VIA Technologies, Inc. and Centaur Technology, Inc. v. Intel
U.S. District Court, Western District of Texas

On September 10, 2001, VIA Technologies, Inc. and Centaur Technology, Inc. sued Intel in the United States District Court for the Western District of Texas, alleging that the Intel Pentium 4 processor infringes a VIA Technologies microprocessor-related patent. The suit seeks injunctive relief

and damages in an unspecified amount. The company disputes the plaintiffs' claims and intends to defend the lawsuit vigorously.

Hawaii Reinforcing Iron Workers Pension Trust Fund, et al. v. Intel, U.S. Dist. Court., Northern Calif.
George Pinel, et al v. Intel, U.S. Dist. Court., Northern Calif.
Fairland Management Corp., et al v. Intel, U.S. Dist. Court., Northern Calif.
Dr. Jayant S. Patel, et al v. Intel, et al, Calif. Superior Court, Santa Clara County

In September, October and November 2001, various plaintiffs filed lawsuits against Intel alleging violations of the Securities Exchange Act of 1934. The five class-action complaints allege that purchasers of Intel stock between July 19, 2000 and September 29, 2000 were misled by false and misleading statements by Intel and certain of its officers and directors concerning the company's business and financial condition. In addition, stockholder derivative complaints have been filed in California Superior Court and Delaware

Chancery Court against the company's directors and certain officers, alleging that they have mismanaged the company and otherwise breached their fiduciary obligations to the company. All complaints seek unspecified damages. The company disputes the plaintiffs' claims and intends to defend the lawsuits vigorously.

We currently are a 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.

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 have reached agreement, however, with those same two companies that significantly limits our liabilities under the proposed cleanup plan. In addition, 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.

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

The information regarding market, market price range and dividend information appearing under "Financial information by quarter (unaudited)" on page 37 of the company's 2001 Annual Report to Stockholders is incorporated by reference.

As of February 22, 2002, there were approximately 259,000 registered holders of record of Intel's common stock.

ITEM 6. SELECTED FINANCIAL DATA

The information regarding selected financial data for the fiscal years 1997 through 2001, under the heading "Financial summary" on page 12 of our 2001 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 29, 2001 are as follows:

Fiscal year				
1997	**1998**	**1999**	**2000**	**2001**
206x	167x	166x	171x	18x

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 13 through 19 of our 2001 Annual Report to Stockholders is incorporated by reference.

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 current published Outlook, including portions that are repeated or incorporated by reference in this Form 10-K. At the same time, we will keep our 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.

From the close of business on March 15, 2002, 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 16, 2002. We also observed a "Quiet Period" from close of business on March 1 until we published our mid-quarter update on March 7.

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 16 and 17 of our 2001 Annual Report to Stockholders is incorporated by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated financial statements of Intel at December 29, 2001 and December 30, 2000, and for each of the three years in the period ended December 29, 2001 and the Report of Independent Auditors thereon, and our unaudited quarterly financial data for the two-year period ended December 29, 2001 are incorporated by reference from our 2001 Annual Report to Stockholders, on pages 20 through 37.

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 "Proposal 1: Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" of our proxy statement relating to its 2002 Annual Meeting of Stockholders (the "2002 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," "Report of the Compensation Committee on Executive Compensation," "Stock Price Performance Graph," and "Executive Compensation" of the 2002 Proxy Statement is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing in our 2002 Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in our 2002 Proxy Statement under the heading "Certain Relationships and Related Transactions" is incorporated by reference.

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 18, 2001, Intel filed a report on Form 8-K relating to financial information for Intel Corporation for the quarter ended September 29, 2001 and forward-looking statements relating to the fourth quarter of 2001 and the second half of 2001, as presented in a press release of October 16, 2001.

On December 6, 2001, Intel filed a report on Form 8-K relating to an announcement regarding an update to forward-looking statements relating to 2001 and the fourth quarter of 2001, as presented in a press release of December 6, 2001.

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AND FINANCIAL STATEMENT SCHEDULES
(Item 14 (a))

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	Form 10-K	2001 Annual Report to Stockholders
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Consolidated Statements of Cash Flows for the years ended December 29, 2001, December 30, 2000 and December 25, 1999		22
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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 2001 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 2001 Annual Report to Stockholders is not to be deemed filed as part of this report.

INTEL CORPORATION

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

December 25, 1999, December 30, 2000 and December 29, 2001
(In Millions)

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions *(A)*	Balance at End of Year
1999				
Allowance for Doubtful Receivables	$ 62	$ 17	$ 12	$ 67
2000				
Allowance for Doubtful Receivables	$ 67	$ 33	$ 16	$ 84
2001				
Allowance for Doubtful Receivables	$ 84	$ 5	$ 21	$ 68

(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.
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 29, 2001, 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, 2002

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
Chief Executive Officer and Director,
Principal Executive Officer
March 12, 2002

/s/ REED E. HUNDT

Reed E. Hundt
Director
March 12, 2002

/s/ JOHN P. BROWNE

John P. Browne
Director
March 12, 2002

/s/ DAVID S. POTTRUCK

David S. Pottruck
Director
March 12, 2002

/s/ ANDY D. BRYANT

Andy D. Bryant
Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer
March 12, 2002

/s/ JANE E. SHAW

Jane E. Shaw
Director
March 12, 2002

/s/ WINSTON H. CHEN

/s/ LESLIE L. VADASZ

Winston H. Chen
Director
March 12, 2002

Leslie L. Vadasz
Executive Vice President and Director
March 12, 2002

/s/ ANDREW S. GROVE

Andrew S. Grove
Chairman of the Board and Director
March 12, 2002

/s/ DAVID B. YOFFIE

David B. Yoffie
Director
March 12, 2002

/s/ D. JAMES GUZY

D. James Guzy
Director
March 12, 2002

/s/ CHARLES E. YOUNG

Charles E. Young
Director
March 12, 2002

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SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
December 25, 1999, December 30, 2000 and December 29, 2001 (In Millions)

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EXHIBIT 3.2

INTEL CORPORATION

BYLAWS

ARTICLE I

Offices

Section 1. Registered Office. The registered office of the corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle.

Section 2. Other Offices. The corporation shall also have and maintain an office or principal place of business at 2200 Mission College Boulevard, Santa Clara, County of Santa Clara, State of California, and may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II

Stockholders' Meetings

Section 1. Place of Meetings.

(a) Meetings of the stockholders of the corporation shall be held at such place, either within or without the State of Delaware, as may be designated from time to time by the Board of Directors, or, if not so designated, then at the office of the corporation required to be maintained pursuant to Section 2 of Article I hereof.

(b) The Board of Directors may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication in accordance with Section 211(a)(2) of the Delaware General Corporation Law. If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxyholders not physically present at a meeting of stockholders may, by means of remote communication (a) participate in a meeting of stockholders; and (b) be deemed present in person and vote at a meeting of stockholders whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder; (ii) the corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings; and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the corporation.

Section 2. Annual Meetings. The annual meetings of the stockholders of the corporation for the purpose of election of directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors, but in no event more than fifteen (15) months after the date of the preceding annual meeting.

Section 3. Special Meetings. Special meetings of the stockholders of the corporation may be called, for any purpose or purposes, by the Chairman of the Board or the President or the Board of Directors at any time.

Section 4. Notice of Meetings.

(a) Except as otherwise provided by law or the Certificate of Incorporation, written notice (as the term "written" is defined in Article XII hereof) of each meeting of stockholders, specifying the place, if any, date and hour of the meeting; the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting; and purpose or purposes of the meeting, shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote thereat, directed to the stockholder in accordance with the procedures set forth in Article X hereof. Notice shall be deemed to have been given to all stockholders of record who share an address if notice is given in accordance with the "householding" rules set forth in Rule 14a-3(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act").

(b) If at any meeting action is proposed to be taken which, if taken, would entitle stockholders fulfilling the requirements of Section 262(d) of the Delaware General Corporation Law to an appraisal of the fair value of their shares, the notice of such meeting shall contain a statement of that purpose and to that effect and shall be accompanied by a copy of that statutory section.

(c) When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, are announced at the meeting at which the adjournment is taken unless the adjournment is for more than thirty days, or unless after the adjournment a new record date is fixed for the adjourned meeting, in which event a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

(d) Notice of the time, place and purpose of any meeting of stockholders may be waived in writing, either before or after such meeting, and to the extent permitted by law, will be waived by any stockholder by his attendance thereat, in person or by proxy. Any stockholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

(e) Unless and until voted, every proxy shall be revocable at the pleasure of the person who executed it or of his legal representatives or assigns, except in those cases where an irrevocable proxy permitted by statute has been given.

Section 5. Quorum and Voting.

(a) At all meetings of stockholders, except where otherwise provided by law, the Certificate of Incorporation, or these Bylaws, the presence, in person or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. Shares, the voting of which at said meeting have been enjoined, or which for any reason cannot be lawfully voted at such meeting, shall not be counted to determine a quorum at said meeting. In the absence of a quorum, any meeting of stockholders may be adjourned, from time to time, by vote of the holders of a majority of the shares represented thereat, but no other business shall be transacted at such meeting. At such adjourned meeting at which a quorum is present or represented, any business may be transacted which might have been transacted at the original meeting. The stockholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

(b) Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, all action taken by the holders of a majority of the voting power represented at any meeting at which a quorum is present shall be valid and binding upon the corporation.

Section 6. Voting Rights.

(a) Except as otherwise provided by law, only persons in whose names shares entitled to vote stand on the stock records of the corporation on the record date for determining the stockholders entitled to vote at said meeting shall be entitled to vote at such meeting. Shares standing in the names of two or more persons shall be voted or represented in accordance with the determination of the majority of such persons, or, if only one of such persons is present in person or represented by proxy, such person shall have the right to vote such shares and such shares shall be deemed to be represented for the purpose of determining a quorum.

(b) Every person entitled to vote or execute consents shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such person or his duly authorized agent, which proxy shall be filed with the Secretary of the corporation at or before the meeting at which it is to be used. Said proxy so appointed need not be a stockholder. No proxy shall be voted on after three years from its date unless the proxy provides for a longer period.

Section 7. List of Stockholders. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. Nothing contained in Section 219 of the Delaware General Corporation Law shall require the corporation to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least ten days prior to the meeting, either (a) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (b) during ordinary business hours, at the principal place of business of the corporation. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, the list shall be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 8. Action Without Meeting.

(a) Unless otherwise provided in the Certificate of Incorporation, any action required by statute to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, are signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. To be effective, a written consent must be delivered to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty days of the earliest dated consent delivered

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in the manner required by this section to the corporation, written consents signed by a sufficient number of holders to take action are delivered to the corporation in accordance with this section.

(b) A telegram, cablegram or other electronic transmission consenting to an action to be taken and transmitted by a stockholder or proxyholder, or by a person or persons authorized to act for a stockholder or proxyholder, shall be deemed to be written, signed and dated for the purposes of this section, provided that any such telegram, cablegram or other electronic transmission sets forth or is delivered with information from which the corporation can determine (a) that the telegram, cablegram or other electronic transmission was transmitted by the stockholder or proxyholder or by a person or persons authorized to act for the stockholder or proxyholder, and (b) the date on which such stockholder or proxyholder or authorized person or persons transmitted such telegram, cablegram or electronic transmission. The date on which such telegram, cablegram or electronic transmission is transmitted shall be deemed to be the date on which such consent was signed. Except to the extent and in the manner authorized by the Board of Directors, no consent given by telegram, cablegram or other electronic transmission shall be deemed to have been delivered until such consent is reproduced in paper form and until such paper form shall be delivered to the corporation by delivery to its registered office in Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be made by hand or by certified or registered mail, return receipt requested.

(c) Any copy, facsimile or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used, provided that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing.

(d) Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date of such meeting had been the date that written consents signed by a sufficient number of stockholders to take the action were delivered to the corporation in the manner required by this section.

Section 9. Nominations and Stockholder Business.

(a) Nominations of persons for election to the Board of Directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the corporation's notice of meeting, (b) by or at the direction of the Board of Directors, or (c) by any stockholder of the corporation

who is a stockholder of record at the time of giving of notice provided for in this Section 9, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 9.

(b) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to this Section 9, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation, and such business must be a proper subject for stockholder action under the Delaware General Corporation Law. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the corporation (if delivered by electronic mail or facsimile, the stockholder's notice shall be directed to the Secretary at the electronic mail address or facsimile number, as the case may be, specified in the company's most recent proxy statement) not less than 45 days nor more than 120 days prior to the date on which the corporation first mailed its proxy materials for the prior year's annual meeting of stockholders; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed (other than as a result of adjournment) by more than 30 days from the anniversary of the previous year's annual meeting, notice by the stockholder to be timely must be delivered not later than the close of business on the later of

the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owners if any on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner, and (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(c) Notwithstanding anything in this Section 9 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the corporation is increased and there is no public announcement specifying the size of the increased Board of Directors made by the corporation at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 9 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(d) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the corporation who is a stockholder of record at the time of giving of notice provided for in this section, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this section. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice required by this section shall be delivered to the Secretary at the principal executive offices of the corporation (if delivered by electronic mail or facsimile, the stockholder's notice shall be directed to the Secretary at the electronic mail address or facsimile number, as the case may be, specified in the company's most recent proxy statement) not earlier than the 120th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(e) Only those persons who are nominated in accordance with the procedures set forth in this section shall be eligible for election as directors at any meeting of stockholders. Only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this section and, if any proposed nomination or business is not in compliance with this section, to declare that such defective proposal shall be disregarded.

(f) For purposes of this section, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a

document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 9, 13, 14 or 15(d) of the Exchange Act.

(g) Notwithstanding the foregoing provisions of this Section 9, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 9. Nothing in this Section 9 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE III

Directors

Section 1. Number and Term of Office. The number of directors which shall constitute the whole of the Board of Directors shall be eleven (11). With the exception of the first Board of Directors, which shall be elected by the incorporator, and except as provided in Section 3 of this Article III, the directors shall be elected by a plurality vote of the shares represented in person or by proxy, at the stockholders annual meeting in each year and entitled to vote on the election of directors. Elected directors shall hold office until the next annual meeting and until their successors shall be duly elected and qualified. Directors need not be stockholders. If, for any cause, the Board of Directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the stockholders called for that purpose in the manner provided in these Bylaws.

Section 2. Powers. The powers of the corporation shall be exercised, its business conducted and its property controlled by or under the direction of the Board of Directors.

Section 3. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director, and each director so elected shall hold office for the unexpired portion of the term of the director whose place shall be vacant, and until his successor shall have been duly elected and qualified. A vacancy in the Board of Directors shall be deemed to exist under this section in the case of the death, removal or resignation of any director, or if the stockholders fail at any meeting of stockholders at which directors are to be elected (including any meeting referred to in Section 4 below) to elect the number of directors then constituting the whole Board.

Section 4. Resignations and Removals.

(a) Any director may resign at any time by delivering his written resignation to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it shall be deemed effective at the pleasure of the Board of Directors. When one or more directors shall resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office for the unexpired portion of the term of the director whose place shall be vacated and until his successor shall have been duly elected and qualified.

(b) Except as provided in Section 141 of the Delaware General Corporation Law, at a special meeting of stockholders called for the purpose in the manner hereinabove provided, the Board of Directors, or any individual director, may be removed from office, with or without cause, and a new director or directors elected by a vote of stockholders holding a majority of the outstanding shares entitled to vote at an election of directors.

Section 5. Meetings.

(a) The annual meeting of the Board of Directors shall be held immediately after the annual stockholders' meeting and at the place where such meeting is held or at the place announced by the Chairman at such meeting. No notice of an annual meeting of the Board of Directors shall be necessary and such meeting shall be held for the purpose of electing officers and transacting such other business as may lawfully come before it.

(b) Except as hereinafter otherwise provided, regular meetings of the Board of Directors shall be held in the office of the corporation required to be maintained pursuant to Section 2 of Article I hereof. Regular meetings of the Board of Directors may also be held at any place within or without the State of Delaware which has been designated by resolutions of the Board of Directors or the written consent of all directors. Notice of regular meetings of the directors is hereby dispensed with and no notice whatever of any such meetings need be given.

(c) Special meetings of the Board of Directors may be held at any time and place within or without the State of Delaware whenever called by the Chairman of the Board, the President or by any two of the directors.

(d) Written notice of the time and place of all special meetings of the Board of Directors shall be delivered to each director at least 24 hours before the start of the meeting, or if sent by first class mail, at least 72 hours before the start of the meeting. Notice of any meeting may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat.

Section 6. Quorum and Voting.

(a) A quorum of the Board of Directors shall consist of a majority of the exact number of directors fixed from time to time in accordance with Section 1 of Article III of these Bylaws, but not less than one; provided, however, at any meeting whether a quorum be present or otherwise, a majority of the directors present may adjourn from time to time until the time fixed for the next regular meeting of the Board of Directors, without notice other than by announcement at the meeting.

(b) At each meeting of the Board at which a quorum is present, all questions and business shall be determined by a vote of a majority of the directors present, unless a different vote be required by law, the Certificate of Incorporation, or these Bylaws.

(c) Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or other communication equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(d) The transactions of any meeting of the Board of Directors, or any committee thereof, however called or noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors not present shall deliver to the corporation a written waiver of notice, or a consent to holding such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 7. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board or of such committee, as the case may be, consent thereto in writing, and such writing or writings are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form or shall be in electronic form if the minutes are maintained in electronic form.

Section 8. Fees and Compensation. Directors shall not receive any stated salary for their services as directors but by resolution of the Board, a fixed fee, with or without expense of attendance, may be allowed for attendance at each meeting and at each meeting of any committee of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation therefor.

Section 9. Committees.

(a) *Executive Committee*: The Board of Directors may appoint an Executive Committee of not less than one member, each of whom shall be a director. The Executive Committee, to the extent permitted by Delaware law, these Bylaws, the Executive Committee Charter or other resolutions of the Board of Directors, shall have and may exercise when the Board of Directors is not in session all powers of the Board of Directors in the management of the business and affairs of the corporation, including, without limitation, the power and authority to declare a dividend or to authorize the issuance of stock, except such committee shall not have the power or authority to (a) approve or adopt, or recommend to the corporation's stockholders, any action or matter expressly required by the Delaware General Corporation Law to be submitted to stockholders for approval, or (b) adopt, amend or repeal any bylaw of the corporation.

(b) *Other Committees*: The Board of Directors may appoint such other committees as may be permitted by law. Such other committees appointed by the Board of Directors shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committee, but in no event shall any such committee have the powers denied to the Executive Committee in these Bylaws.

(c) *Term*: The members of all committees of the Board of Directors shall serve a term coexistent with that of the Board of Directors which shall have appointed such committee. The Board, subject to the provisions of subsections (a) or (b) of this Section 9, may at any time increase or decrease the number of members of a committee or terminate the existence of a committee; provided, that no committee shall consist of less than one member. The membership of a committee member shall terminate on the date of his death or voluntary resignation, but the Board may at any time for any reason remove any individual committee member and the Board may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not the member or members constitutes a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(d) *Meetings*: Unless the Board of Directors shall otherwise provide, regular meetings of the Executive Committee or any other committee appointed pursuant to this Section 9 shall be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter; special meetings of any such committee may be held at the principal office of the corporation required to be maintained pursuant to Section 2 of Article I hereof, or at any place which has been designated from time to time by resolution of such committee or by written consent of all members thereof, and may be called by any director who is a member of such committee, upon written notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of written notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time before or after the meeting and will be waived by any

director by attendance thereat. A majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present shall be the act of such committee.

Section 10. Emeritus Director. The Board of Directors may, from time to time, elect one or more Emeritus Directors, each of whom shall serve, at the pleasure of the Board, until the first meeting of the Board next following the Annual Meeting of Stockholders and for a maximum period of 3 years, subject to an annual review, or until earlier resignation or removal by the Board (except that founders of the company may remain as Emeritus Directors, subject to the annual review, or until earlier resignation or removal by the Board). Emeritus Directors shall serve as advisors and consultants to the Board of Directors and may be appointed by the Board to serve as advisors and consultants to committees of the Board. Emeritus Directors may be invited to attend meetings of the Board or any committee of the Board for which they have been appointed to serve as advisors and consultants and, if present, may participate in the discussions occurring during such meetings. Emeritus Directors shall not be permitted to vote on matters brought before the Board or any committee thereof and shall not be counted for the purpose of determining whether a quorum of the Board or the committee is present. Emeritus Directors shall receive no fee for their services as Emeritus Directors. Emeritus Directors will not be entitled to receive reimbursement for expenses of meeting attendance, except as approved by the Chairman of the Board. Emeritus Directors may be removed at any time by the Board of Directors.

ARTICLE IV

Officers

Section 1. Officers Designated. The officers of the corporation shall be a Chairman of the Board of Directors who shall be a member of the Board of Directors, a President, one or more Vice Presidents, a Secretary, and a Treasurer. The order of the seniority of the Vice Presidents shall be in the order of their nomination, unless otherwise determined by the Board of Directors. The Board of Directors or the Chairman of the Board or the President may also appoint one or more assistant secretaries, assistant treasurers, and such other officers and agents with such powers and duties as it or he or she shall deem necessary. The Board of Directors may assign such additional titles to one or more of the officers as they shall deem appropriate. Any one person may hold any number of offices of the corporation at any one time unless specifically prohibited therefrom by law. The salaries and other compensation of the officers of the corporation shall be fixed by or in the manner designated by the Board of Directors.

Section 2. Tenure and Duties of Officers.

(a) *General*: All officers shall hold office at the pleasure of the Board of Directors and until their successors shall have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors. Nothing in these Bylaws shall be construed as creating any kind of contractual right to employment with the corporation.

(b) *Duties of the Chairman of the Board of Directors*: The Chairman of the Board of Directors shall preside at all meetings of the stockholders and the Board of Directors. The Chairman of the Board of Directors shall perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

(c) *Duties of President*: The President shall preside at all meetings of the stockholders and at all meetings of the Board of Directors, unless the Chairman of the Board of Directors has been appointed and is present. The President shall perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

(d) *Duties of Vice Presidents*: The Vice Presidents, in the order of their seniority, may assume and perform the duties of the President in the absence or disability of the President or whenever the office of the President is vacant. The Vice President shall perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(e) *Duties of Secretary*: The Secretary shall attend all meetings of the stockholders and of the Board of Directors and any committee thereof, and shall record all acts and proceedings thereof in the minute book of the corporation and shall keep the seal of the corporation in safe custody. The Secretary shall give notice, in conformity with these Bylaws, of all meetings of the stockholders, and of all meetings of the Board of Directors and any Committee thereof requiring notice. The Secretary shall perform such other duties and have such other powers as the Board of Directors shall designate from time to time. The President may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(f) *Duties of Chief Financial Officer and Treasurer*: Each of the Chief Financial Officer and the Treasurer shall control, audit and arrange the financial affairs of the corporation, consistent with the responsibilities delegated to each of them by the corporation's President. The Chief Financial Officer or Treasurer, as the case may be, shall receive and deposit all monies belonging to the corporation and shall pay out the same only in such manner as the Board of Directors may from time to time determine, and shall perform such other further duties as the Board of Directors may require. It shall be the duty of the assistant treasurers to assist the Treasurer in the performance of the Treasurer's duties and generally to perform such other duties as may be delegated to them by the Board of Directors.

ARTICLE V

Execution of Corporate Instruments, and
Voting of Securities Owned by the Corporation

Section 1. Execution of Corporate Instruments.

(a) The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute any corporate instrument or document, or to sign the corporate name without limitation, except where otherwise provided by law, and such execution or signature shall be binding upon the corporation.

(b) Unless otherwise specifically determined by the Board of Directors or otherwise required by law, formal contracts of the corporation, promissory notes, deeds of trust, mortgages and other evidences of indebtedness of the corporation, and other corporate instruments or documents requiring the corporate seal, and certificates of shares of stock owned by the corporation, shall be executed, signed or endorsed by the Chairman of the Board, the President, any Vice President or the Secretary. All other instruments and documents requiring the corporate signature, but not requiring the corporate seal, may be executed as aforesaid or in such other manner as may be directed by the Board of Directors.

(c) All checks and drafts drawn on banks or other depositaries on funds to the credit of the corporation, or in special accounts of the corporation, shall be signed by such person or persons as the Board of Directors shall authorize so to do.

Section 2. Voting of Securities Owned by Corporation. All stock and other securities of other corporations owned or held by the corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors or, in the absence of such authorization, by the Chairman of the Board (if there be such an officer appointed), or by the President, or by any Vice President.

ARTICLE VI

Shares of Stock

Section 1. Form and Execution of Certificates. Certificates for the shares of stock of the corporation shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of stock in the corporation shall be entitled to have a certificate signed by, or in the name of the corporation by, the Chairman of the Board (if there be such an officer appointed), or by the President or any Vice President and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary, certifying the number of shares owned by him in the corporation. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he or she were such officer, transfer agent, or registrar at the date of issue. If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the Delaware General Corporation Law, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 2. Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to indemnify the corporation in such manner as it shall require and/or to give the corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost or destroyed.

Section 3. Transfers. Transfers of record of shares of stock of the corporation shall be made only upon its books by the holders thereof, in person or by attorney duly authorized, and upon the surrender of a certificate or certificates for a like number of shares, properly endorsed.

Section 4. Fixing Record Dates.

(a) In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty nor less than ten days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the date on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of

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stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by the Delaware General Corporation Law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered (a) to the corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded, or (b) directly to the corporation, if authorized by the Board of Directors in the case of consents submitted by electronic transmission. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(c) In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 5. Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII

Other Securities of the Corporation

All bonds, debentures and other corporate securities of the corporation, other than stock certificates, may be signed by the Chairman of the Board or the President or any Vice President or such other person as may be authorized by the Board of Directors and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer; provided, however, that where any such bond, debenture or other corporate security shall be authenticated by the manual signature of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signature of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or Assistant Treasurer of the corporation, or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile

signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon shall have ceased to be such officer of the corporation before the bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the corporation.

ARTICLE VIII

Corporate Seal

The corporation shall have a common seal, upon which shall be inscribed:

"Intel Corporation
Incorporated March 1, 1989
Delaware"

In the event the corporation changes its name, the corporate seal shall be changed to reflect such new name.

ARTICLE IX

Indemnification of
Officers, Directors, Employees and Agents

Section 1. Right to Indemnification. Each person who was or is a party or is threatened to be made a party to or is involved (as a party, witness, or otherwise), in any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (hereinafter a "Proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation or of a partnership, joint venture, trust, or other enterprise, including service with respect to employee benefit plans, whether the basis of the Proceeding is alleged action in an official capacity as a director, officer, employee, or agent or in any other capacity while serving as a director, officer, employee, or agent (hereafter an "Agent"), shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended or interpreted (but, in the case of any such amendment or interpretation, only to the extent that such amendment or interpretation permits the corporation to provide broader indemnification rights than were permitted prior thereto) against all expenses, liability, and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid or to be paid in settlement, and any interest, assessments, or other charges imposed thereon, and any federal, state, local, or foreign taxes imposed on any Agent as a result of the actual or deemed receipt of any payments under this Article) reasonably incurred or suffered by such person in connection with investigating, defending, being a witness in, or participating in (including on appeal), or preparing for any of the foregoing in, any Proceeding (hereinafter "Expenses"); provided, however, that except as to actions to enforce indemnification rights pursuant to Section 3 of this Article, the corporation shall indemnify any Agent seeking indemnification in connection with a Proceeding (or part thereof) initiated by such person only if the Proceeding (or part thereof) was authorized by the Board of Directors of the corporation. The right to indemnification conferred in this Article shall be a contract right.

Section 2. Authority to Advance Expenses. Expenses incurred by an officer or director (acting in his capacity as such) in defending a Proceeding shall be paid by the corporation in advance of the final

disposition of such Proceeding, provided, however, that if required by the Delaware General Corporation Law, as amended, such Expenses shall be advanced only upon delivery to the corporation of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation as authorized in this Article or otherwise. Expenses incurred by other Agents of the corporation (or by the directors or officers not acting in their capacity as such, including service with respect to employee benefit plans) may be advanced upon such terms and conditions as the Board of Directors deems appropriate. Any obligation to reimburse the corporation for Expense advances shall be unsecured and no interest shall be charged thereon.

Section 3. Right of Claimant to Bring Suit. If a claim under Section 1 or 2 of this Article is not paid in full by the corporation within thirty (30) days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole

or in part, the claimant shall be entitled to be paid also the expense (including attorneys' fees) of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending a Proceeding in advance of its final disposition where the required undertaking has been tendered to the corporation) that the claimant has not met the standards of conduct that make it permissible under the Delaware General Corporation Law for the corporation to indemnify the claimant for the amount claimed. The burden of proving such a defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper under the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant had not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 4. Provisions Nonexclusive. The rights conferred on any person by this Article shall not be exclusive of any other rights that such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, agreement, vote of stockholders or disinterested directors, or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. To the extent that any provision of the Certificate, agreement, or vote of the stockholders or disinterested directors is inconsistent with these Bylaws, the provision, agreement, or vote shall take precedence.

Section 5. Authority to Insure. The corporation may purchase and maintain insurance to protect itself and any Agent against any Expense, whether or not the corporation would have the power to indemnify the Agent against such Expense under applicable law or the provisions of this Article.

Section 6. Survival of Rights. The rights provided by this Article shall continue as to a person who has ceased to be an Agent and shall inure to the benefit of the heirs, executors, and administrators of such a person.

Section 7. Settlement of Claims. The corporation shall not be liable to indemnify any Agent under this Article (a) for any amounts paid in settlement of any action or claim effected without the corporation's written consent, which consent shall not be unreasonably withheld; or (b) for any judicial award if the corporation was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action.

Section 8. Effect of Amendment. Any amendment, repeal, or modification of this Article shall not adversely affect any right or protection of any Agent existing at the time of such amendment, repeal, or modification.

Section 9. Subrogation. In the event of payment under this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Agent, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the corporation effectively to bring suit to enforce such rights.

Section 10. No Duplication of Payments. The corporation shall not be liable under this Article to make any payment in connection with any claim made against the Agent to the extent the Agent has otherwise actually received payment (under any insurance policy, agreement, vote, or otherwise) of the amounts otherwise indemnifiable hereunder.

ARTICLE X

Notices

(a) Whenever, under any provisions of these Bylaws, notice is required to be given to any stockholder, the same shall be given in writing, either (a) timely and duly deposited in the United States Mail, postage prepaid, and addressed to the stockholder's last known post office address as shown by the stock record of the corporation or its transfer agent or (b) by a form of electronic transmission consented to by the stockholder to whom the notice is given, except to the extent prohibited by Section 232(e) of the Delaware General Corporation Law. Any consent to receive notice by electronic transmission shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if (i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent and (ii) such inability becomes known to the Secretary or an Assistant Secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice; provided, however, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

(b) Any notice required to be given to any director may be given by the method hereinabove stated. Any such notice, other than one which is delivered personally, shall be sent to such post office address, facsimile number or electronic mail address as such director shall have filed in writing with the Secretary of the corporation, or, in the absence of such filing, to the last known post office address of such director. It shall not be necessary that the same method of giving notice be employed in respect of all directors, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others.

(c) If no post office address of a stockholder or director be known, such notice may be sent to the office of the corporation required to be maintained pursuant to Section 2 of Article I hereof. An affidavit executed by a duly authorized and competent employee of the corporation or the transfer agent or other agent of the corporation appointed with respect to the class of stock affected, specifying the name and post office address or the names and post office addresses of the stockholder or stockholders, director or directors, to whom any such notice or notices was or were given, and the time and method of giving the same (or, for any stockholder or director to whom notice has been directed by electronic transmission, the form of electronic transmission and the facsimile number, electronic mail address or other location to which such notice was directed and the time at which such notice was directed to each such director or stockholder), shall be prima facie evidence of the statements therein contained.

(d) All notices given by mail, as above provided, shall be deemed to have been given as at the time of mailing. All notices given to stockholders by a form of electronic transmission, as above provided, shall be deemed to have been given: (a) if by facsimile, when directed to a number at which the stockholder has consented to receive notice; (b) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (c) if by a posting on

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an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (i) such posting and (ii) the giving of such separate notice; and (d) if by any other form of electronic transmission, when directed to the stockholder. All notices given to directors by a form of electronic transmission, as above provided, shall be deemed to have been given when directed to the electronic mail address, facsimile number, or other location filed in writing by the director with the Secretary of the corporation.

(e) The period or limitation of time within which any stockholder may exercise any option or right, or enjoy any privilege or benefit, or be required to act, or within which any director may exercise any power or right, or enjoy any privilege, pursuant to any notice sent him in the manner above provided, shall not be affected or extended in any manner by the failure of such a stockholder or such director to receive such notice.

(f) Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation, or of these Bylaws, a waiver thereof in writing given by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

(g) Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or Bylaws of the corporation, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

(h) Whenever notice is to be given to the corporation by a stockholder under any provision of law or of the Certificate of Incorporation or Bylaws of the corporation, such notice shall be delivered to the Secretary at the principal executive offices of the corporation. If delivered by electronic mail or facsimile, the stockholder's notice shall be directed to the Secretary at the electronic mail address or facsimile number, as the case may be, specified in the company's most recent proxy statement.

ARTICLE XI

Amendments

Unless otherwise provided in the Certificate of Incorporation, these Bylaws may be repealed, altered or amended or new Bylaws adopted by written consent of the stockholders in the manner authorized by Section 8 of Article II, or at any meeting of the stockholders, either annual or special, by the affirmative vote of a majority of the stock entitled to vote at such meeting. The Board of Directors shall also have the authority to repeal, alter or amend these Bylaws or adopt new Bylaws (including, without limitation, the amendment of any Bylaws setting forth the number of directors who shall constitute the whole Board of Directors) by unanimous written consent or at any annual, regular, or special meeting by the affirmative vote of a majority of the whole number of directors, subject to the power of the stockholders to change or repeal such Bylaws and provided that the Board of Directors shall not make or alter any Bylaws fixing the qualifications, classifications, term of office or compensation of directors.

ARTICLE XII

Electronic Transmission

When used in these Bylaws, the terms "written" and "in writing" shall include any "electronic transmission," as defined in Section 232(c) of the Delaware General Corporation Law, including without limitation any telegram, cablegram, facsimile transmission and communication by electronic mail.

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INTEL CORPORATION BYLAWS

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EXHIBIT 12

INTEL CORPORATION 2001 FORM 10-K

STATEMENT SETTING FORTH THE COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES FOR INTEL CORPORATION

(In millions, except ratios)

	Years Ended				
	Dec. 27, 1997	Dec. 26, 1998	Dec. 25, 1999	Dec. 30, 2000	Dec. 29, 2001
Income before taxes	$ 10,659	$ 9,137	$ 11,228	$ 15,141	$ 2,183
Add - Fixed charges net of capitalized interest	43	49	63	82	125
Income before taxes and fixed charges (net of capitalized interest)	$ 10,702	$ 9,186	$ 11,291	$ 15,223	$ 2,308
Fixed charges:					
Interest expense	$ 27	$ 34	$ 36	$ 35	$ 56
Capitalized interest	9	6	5	7	5
Estimated interest component of rental expense	16	15	27	47	69
Total	$ 52	$ 55	$ 68	$ 89	$ 130
Ratio of earnings before taxes and fixed charges, to fixed charges	**206x**	**167x**	**166x**	**171x**	**18x**

QuickLinks

INTEL CORPORATION 2001 FORM 10-K STATEMENT SETTING FORTH THE COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES FOR INTEL CORPORATION (In millions, except ratios)

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EXHIBIT 13

Financial summary

Ten years ended December 29, 2001

(In millions—except per share amounts)	Net revenues	Cost of sales	Research & development	Purchased in-process research & development	Amortization of goodwill & acquistion-related intangibles & costs	Operating income	Net income	Basic earnings per share	Diluted earnings per share
2001	$ 26,539	$ 13,487	$ 3,796	$ 198	$ 2,338	$ 2,256	$ 1,291	$ .19	$ .19
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

(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	Stock-holders' equity	Additions to property, plant & equipment	Weighted average diluted shares outstanding	Dividends declared per share	Dividends paid per share
2001	83.4	$ 18,121	$ 44,395	$ 1,050	$ 35,830	$ 7,309	6,879	$ .080	$ .080
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

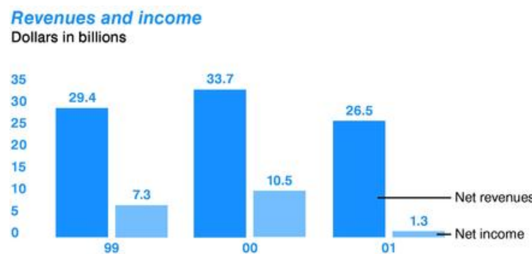
Management's discussion and analysis of financial condition and results of operations

Results of operations

Consolidated revenues and margin > For 2001, our net revenues of $26.5 billion were 21% below 2000 net revenues, reflecting a tough year for the technology industry. Revenues declined across all of our geographies and major product lines as we felt the impact of the worldwide economic slowdown. Our decrease in net revenues came primarily from the Intel Architecture operating segment in the form of significantly lower unit volumes and significantly lower average selling prices of microprocessors. Lower revenues in both the Intel Communications Group and the Wireless Communications and Computing Group also contributed to the decline as demand for these products decreased significantly.

In spite of the revenue decline and the lower sales volume of microprocessors, cost of sales increased 7% in 2001 compared to 2000, primarily due to increased start-up costs and higher unit costs for microprocessors in the Intel Architecture business.

Our gross margin percentage decreased significantly, from 62% in 2000 to 49% in 2001, primarily due to lower revenues from sales of microprocessors, including the effect of lower average selling prices and the impact of spreading fixed factory costs over a lower volume. Higher factory start-up costs for the Intel Architecture business also contributed to the decline in the gross margin percentage. The impact of lower sales volume and a decline in factory capacity utilization in the Wireless Communications and Computing Group, as well as lower sales in the Intel Communications Group, also lowered the gross margin percentage. See "Outlook" for a discussion of gross margin expectations.



By contrast, from 1999 to 2000, our net revenues increased by 15%, primarily due to a higher unit sales volume of microprocessors, partially offset by lower average selling prices in the Intel Architecture business. Additionally, revenues from sales of flash memory in the Wireless Communications and Computing Group grew significantly from 1999 to 2000, as did networking and communications product sales in the Intel Communications Group.

Cost of sales increased 7% in 2000 compared to 1999, due to higher sales volume in the Wireless Communications and Computing Group and the Intel Communications Group. This increase was partially offset by lower cost of sales in the Intel Architecture business, primarily due to lower unit costs.

The gross margin percentage increased to 62% in 2000 from 60% in 1999, primarily as a result of higher gross margin in the Intel Architecture business due to lower microprocessor unit costs. These lower costs were partially offset by lower average selling prices for microprocessors and the costs recorded in 2000 related to chipsets and motherboards with a defective memory translator hub (MTH). Improved demand and higher prices for flash memory in the Wireless Communications and Computing Group also contributed to the improvement in gross margin percentage.

Intel Architecture > The Intel Architecture operating segment consists of the Desktop Platforms Group, the Mobile Platforms Group and the Enterprise Platforms Group. Net revenues for this business decreased by $5.9 billion, or 21%, in 2001 compared to 2000. The decrease in net revenues was primarily due to significantly lower unit volumes and significantly lower average selling prices of microprocessors. The lower selling prices reflect the impact of competitive pricing pressures and our strategy to accelerate the transition from the Pentium® III processor to the Pentium® 4 processor. For 2001, sales of microprocessors based on the P6 microarchitecture (including the Celeron®, Pentium III and Pentium® III Xeon™ processors), as well as related board-level products and chipsets, comprised a majority of our consolidated net revenues and a substantial majority of our gross margin. For the same period, sales of products based on the Intel® NetBurst™ microarchitecture, including the Pentium 4 and Intel® Xeon™ processors and related products, were a significant and rapidly increasing portion of our consolidated net revenues and gross margin.

Net operating results decreased by $6.3 billion, or 50%, in 2001 compared to 2000, primarily due to lower average selling prices, lower unit volumes and higher unit costs for microprocessors. Increased start-up costs related to the 0.13-micron manufacturing process technology, which ramped in four factories during 2001, and start-up costs on 300-millimeter wafer manufacturing also contributed to the decline. Lower revenue-dependent expenses and reduced spending due to company-wide cost reduction programs partially offset the decline in net operating results.

For 2000, net revenues increased by $1.8 billion, or 7%, compared to 1999. The increase in net revenues was primarily due to higher unit sales volume of microprocessors, partially offset by lower average selling prices. For 2000, sales of microprocessors based on the P6 microarchitecture, as well as related board-level products and chipsets comprised a substantial majority of our consolidated net revenues and gross margin.

Net operating results increased by $1.4 billion, or 12%, in 2000 compared to 1999, primarily due to higher sales and lower unit costs of microprocessors. The decreased unit 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 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 MTH component.

In January 2002, we announced the promotion of Paul S. Otellini, who was Executive Vice President and General Manager of the Intel Architecture Group, to President and Chief Operating Officer of Intel.

Intel Communications Group > Net revenues decreased by $903 million, or 26%, in 2001 compared to 2000, primarily due to significantly lower unit volumes of embedded control chips, network processing components, enterprise infrastructure and telecommunications products, including telecommunications boards, consistent with an industry-wide reduction in demand for these products. The overall revenue decline was partially offset by incremental revenues related to acquisitions completed in 2001.

Net operating results decreased by $1.1 billion to a loss of $735 million in 2001 from a profit of $319 million in 2000, primarily due to the lower unit volumes of embedded control chips, network processing components and telecommunications-related products. Higher research and development spending in 2001 also contributed to the decline, primarily due to businesses acquired in 2001 and a full year of spending for acquisitions made in 2000.

For 2000, net revenues increased by $1.1 billion, or 46%, compared to 1999, primarily due to significantly higher unit volumes of telecommunications-related products, network processing components and optical networking equipment. The net increase in revenues includes incremental revenues related to acquisitions completed in 2000 and a full year of revenues from acquisitions completed in 1999.

Net operating results decreased by $118 million to $319 million in 2000 from $437 million in 1999, primarily due to the higher research and development spending from acquired businesses, partially offset by revenues from the higher sales volume of network processing components and telecommunications-related products.

Wireless Communications and Computing Group > Net revenues decreased by $437 million, or 16%, in 2001 compared to 2000. For the first half of 2001, the decline was primarily due to significantly lower unit sales of flash memory as the cellular market worked through inventories built up in the latter part of 2000. For the second half of 2001, the decline was primarily due to lower volumes of flash memory units brought on by the worldwide economic slowdown.

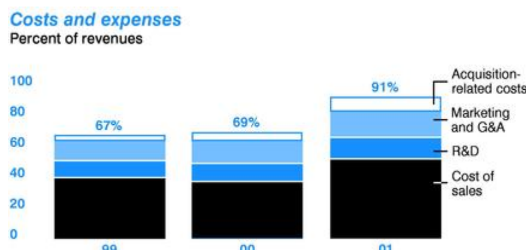
Net operating results decreased by $864 million to a loss of $256 million in 2001 from a profit of $608 million in 2000, primarily due to lower flash memory volume, the impact of decreased factory capacity utilization and higher inventory writedowns in the first half of 2001. Higher research and development spending also contributed to the decline.

By contrast, 2000 net revenues increased by $1.4 billion compared to 1999, primarily due to a significant increase in the unit sales of flash memory as worldwide demand for cellular phones increased dramatically. Average selling prices for flash memory also increased significantly as our mix shifted toward higher density products and we benefited from long-term supply agreements with customers.

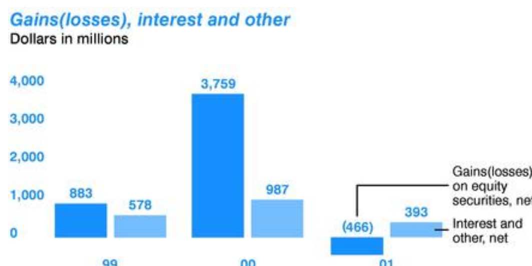
Net operating results increased by $704 million to a profit of $608 million in 2000 from a loss of $96 million in 1999, primarily due to increased flash memory revenues, partially offset by increased research and development spending.

Operating expenses, other and taxes > Excluding charges of $198 million for purchased in-process research and development (IPR&D) related to the current year's acquisitions ($109 million in 2000 and $392 million in 1999), research and development spending decreased $101 million, or 3%, in 2001 compared to 2000 and increased $786 million, or 25%, in 2000 compared to 1999. The decrease for 2001 compared to 2000 was primarily due to cost containment efforts, including reductions in discretionary spending on travel-related expenses. The increase for 2000 compared to 1999 was primarily due to increased spending on product development programs, including the product development programs of companies acquired. Marketing, general and administrative expenses decreased $625 million, or 12%, in 2001 compared to 2000, primarily due to decreased revenue-dependent Intel Inside® cooperative advertising program expenses and profit-dependent bonus expenses, as well as lower discretionary spending as a result of cost reduction programs, partially offset by marketing, general and administrative expenses from companies acquired. Marketing, general and administrative expenses increased $1.2 billion, or 31%, from 1999 to 2000, primarily due to increases for the Intel Inside cooperative advertising program, profit-dependent bonus expenses, and marketing, general and administrative expenses from companies acquired.

Amortization of goodwill and other acquisition-related intangibles and costs increased to $2.3 billion in 2001 compared to $1.6 billion in 2000, primarily due to new acquisitions in 2001, a full year's impact of prior-year acquisitions and write-offs of impaired goodwill and identified intangibles of $124 million. Through 2001, in accordance with our accounting policy, we reviewed acquisition-related goodwill and identified intangibles for impairment based on undiscounted cash flows, and these analyses incorporated our estimates of future cash flows related to the acquired businesses. If the new goodwill and intangibles asset accounting standards issued by the Financial Accounting Standards Board (FASB) in July 2001 had been applied in 2001, we estimate that amortization expense would have been approximately $1.6 billion lower than the $2.3 billion reported. For 1999 to 2000, amortization increased $1.2 billion, primarily due to the impact of additional acquisitions and a full year's impact of prior year acquisitions. Amortization for all periods is included in the calculation of the operating loss for the "all other" category for segment reporting purposes.



For 2001, net losses on investments in equity securities and certain equity derivatives totaled $466 million, compared to net gains of $3.8 billion (including a significant gain on the sale of our holdings of Micron Technology, Inc.) in 2000. For 2001, the net loss included impairments of $1.1 billion, partially offset by net gains on transactions of $517 million and mark-to-market gains on trading assets and derivatives of $122 million. For 2000 compared to 1999, gains on investments increased by $2.9 billion, primarily due to sales of appreciated securities, including the Micron gain.



Interest and other, net decreased $594 million from 2000 to 2001. Interest income decreased due to lower average investment balances and lower interest rates in 2001 compared to 2000. In addition, we recognized a net loss of $196 million from our investment in Convera Corporation, including $39 million as our proportionate share of Convera's loss and $157 million on the impairment and subsequent sale of the investment. This compares to a gain of $117 million that we recognized on our contribution of a business in the formation of Convera in 2000. For 2000 compared to 1999, interest and other, net increased $409 million, primarily due to higher average investment balances and higher average interest rates, and the $117 million gain on Convera.

Our effective income tax rate was 40.9% in 2001, 30.4% in 2000 and 34.9% in 1999. Excluding the impact of non-deductible IPR&D charges, amortization of non-deductible goodwill, and tax benefits related to prior years of $100 million in 2001 and $600 million in 2000, our adjusted effective tax rate was 25.7% in 2001, 31.8% in 2000 and 33% in 1999. The lower adjusted rate in 2001 compared to 2000 was due to a shift in the mix of income in various tax jurisdictions. The lower adjusted rate in 2000 compared to 1999 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 2001, 2000 and 1999.

(Dollars in millions)	IPR&D	Estimated cost to complete technology	Discount rate applied to IPR&D	Weighted average cost of capital
2001				
Xircom	$ 53	$ 7	25—55%	22%
VxTel	$ 68	$ 14	25—35%	22%
LightLogic	$ 46	$ 7	25—35%	23%

2000						
GIGA	$	52	$	12	20%	15%
1999						
Dialogic	$	83	$	32	22%	17%
Level One	$	231	$	19	30%	23%
DSP Communications	$	59	$	13	20%	17%

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

2001 acquisitions > In March, we acquired Xircom, Inc., which specializes in PC cards and other products used to connect mobile computing devices to corporate networks and the Internet. Xircom had 20 IPR&D projects, each contributing from 1% to 24% of the total IPR&D value. The in-process projects included the development of next-generation PC card devices for portable computing connectivity that support various computing standards. These projects ranged from 5% to 86% complete. All projects had expected completion dates in 2001 at the time of acquisition. Expected completion dates for three projects comprising 30% of the total IPR&D value were revised to 2002, and nine additional projects representing 33% of the total IPR&D value were cancelled in the third quarter of 2001 in order to focus on core competencies and the next generation of current products. Xircom's remaining projects were completed as scheduled.

In April, we acquired VxTel Inc., which designs signal and packet processing silicon and system-level solutions that form the foundation for next-generation optical networks. VxTel had two IPR&D projects, with its digital signal processor project accounting for 89% of the total IPR&D value. The project was 84% complete at the time of acquisition and was completed in 2001.

In May, we acquired LightLogic, Inc., which designs advanced opto-electronic modules for next-generation optical communications systems. LightLogic had four IPR&D projects, each contributing from 8% to 52% of the total IPR&D value. These projects ranged from 40% to 80% complete and had expected completion dates in 2001 at the time of acquisition. Two projects have been completed, and the remaining two projects are expected to be completed in 2002.

2000 acquisitions > In March, 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 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, we acquired Dialogic Corporation. Dialogic designs, manufactures and markets computer hardware and software enabling technology for computer telephony systems. Two projects accounted for 65% of the value assigned to IPR&D and were 55% to 60% complete at the time of acquisition. Dialogic's projects have been completed.

In August, 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, ranging from 39% to 86% complete at the time of acquisition. Level One's projects have been completed.

In November, 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 and ranging from 10% to 90% complete at the time of acquisition. Significant portions of three projects, representing 73% of the value assigned to IPR&D, have been cancelled, with technology development efforts refocused on next-generation standards. Projects completed represented approximately 23% of the value assigned to IPR&D.

Financial condition

Although 2001 was a difficult year, our financial condition remained strong. At December 29, 2001, cash, short-term investments and trading assets totaled $11.6 billion, down from $13.8 billion at December 30, 2000. Total short-term and long-term debt of $1.5 billion was 4% of stockholders' equity at the end of 2001, compared to 3% of stockholders' equity at the end of 2000. At the end of 2001, we had future operating lease obligations not included on our balance sheet totaling $610 million, primarily related to facilities. In addition, at the end of 2001, we had contractual obligations of $1.9 billion for the purchase or construction of property, plant and equipment. See "Outlook" for a discussion of capital expenditure expectations for 2002.

For 2001, cash provided by operating activities was $8.7 billion, compared to $12.8 billion in 2000 and $12.1 billion in 1999. Although unit sales were down significantly in 2001, we ended the year with inventory levels approximately the same as at the end of 2000. Raw materials and finished goods inventory decreased, offset by an increase in work-in-process inventory associated with the ramp of the

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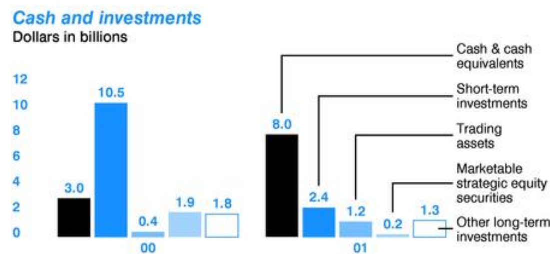
Pentium 4 processor and the 0.13-micron manufacturing process technology. For 2001, accounts receivable decreased significantly, primarily due to the lower revenues, but the days' sales outstanding were unchanged from fiscal year-end 2000. For 2001, as a group, our five largest customers accounted for approximately 38% of net revenues, and of this group one customer accounted for 14% of revenues. At December 29, 2001, these five largest customers accounted for approximately 41% of net accounts receivable.



We used $195 million in net cash for investing activities during 2001, compared to $10.0 billion during 2000 and $6.2 billion during 1999. This decrease reflects net sales of available-for-sale investments and a shift to investments with shorter initial maturities that are classified as cash equivalents. Capital expenditures totaled $7.3 billion in 2001 as we continued to invest in property, plant and equipment, primarily for additional microprocessor manufacturing capacity, including 300-millimeter manufacturing capacity and the transition to the 0.13-micron manufacturing process technology. During 2001, we also paid $883 million in cash for acquisitions, net of cash acquired, including the purchases of Xircom and VxTel.

We used $3.5 billion in net cash for financing activities in 2001, compared to $3.5 billion in 2000 and $4.2 billion in 1999. The major financing applications of cash in 2001 were for the repurchase of 133 million shares of common stock for $4.0 billion and payment of dividends of $538 million. The major financing applications of cash in 2000 were for stock repurchases totaling $4.0 billion ($4.6 billion in 1999) and payments of dividends of $470 million ($366 million in 1999). Financing sources of cash during 2001 were primarily $762 million in proceeds from the sale of shares, pursuant to employee stock plans ($797 million in 2000 and $543 million in 1999).

At December 29, 2001, marketable strategic equity securities totaled $155 million, with $46 million in net unrealized appreciation. The total value of the marketable strategic equity securities decreased by $1.8 billion compared to December 30, 2000, and net unrealized appreciation decreased by approximately $246 million, primarily due to sales of securities and declines in market values. At the end of 2001, the carrying value of our non-marketable equity securities was $1.3 billion, down from $1.7 billion at the end of 2000, primarily due to the impact of impairment charges, partially offset by additional investments.

Another potential source of liquidity is authorized borrowings, including commercial paper, of $3.0 billion. We also maintain the ability to issue an aggregate of approximately $1.4 billion in debt, equity and other securities under U.S. Securities and Exchange Commission shelf registration statements.

We believe that we have the financial resources needed to meet business requirements for the next 12 months, including 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, non-U.S. currency exchange rates and marketable equity security prices. To mitigate these risks, we utilize derivative financial instruments, among other strategies. Other than warrants and other equity derivatives that we acquired for strategic purposes, we do not use derivative financial instruments for speculative purposes. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions at December 29, 2001. 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 43% of the rate at the end of 2001, could be experienced in the near term. A hypothetical 80-basis-point increase in interest rates, after taking into account hedges and offsetting positions, would have resulted in an approximate $10 million decrease in the fair value of our investments in debt securities as of the end of 2001 and a $20 million decrease as of the end of 2000.

We generally hedge currency risks of investments denominated in non-U.S. currencies with non-U.S.-currency borrowings, currency forward contracts and currency interest rate swaps. Gains and losses on these non-U.S.-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, after taking into account hedges and offsetting positions, would have resulted in an adverse impact on income before taxes of less than $6 million as of the end of 2001 and $20 million as of the end of 2000.

We have a portfolio of equity investments that includes marketable securities classified as either marketable strategic equity securities or trading assets, as well as derivative equity instruments such as warrants and options. To the extent that these investments continue to have strategic value, we typically do not attempt to reduce or eliminate our market exposure. These investments are generally in companies in the high-technology industry, and a substantial majority of the market value of the portfolio is in two sectors: communications, including networking and storage companies, and computing. As of December 29, 2001, five equity positions constituted approximately 50% of the market value of the portfolio, with no individual position exceeding 11% 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 in market prices, and after reflecting the impact of hedges and offsetting positions, our portfolio would decrease in value by approximately $70 million, based on the value of the portfolio as of December 29, 2001 (a decrease in value of $575 million based on the portfolio as of the end of 2000). The decrease in this hypothetical exposure from 2000 to 2001 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.

An adverse movement of equity market prices would also have an impact on our portfolio of non-marketable strategic equity securities, although the impact cannot be directly quantified. Such a movement and the related underlying economic conditions would negatively affect the prospects of the companies we invest in, their ability to raise additional capital and the likelihood of our being able to realize our investments through liquidity events such as initial public offerings, mergers and private sales. At December 29, 2001, our non-marketable strategic equity securities had a carrying amount of $1.3 billion, excluding equity derivatives that are subject to mark-to-market requirements.

Strategy

This strategy section and the following outlook section contain 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 7, 2002.

Our goal is to be the preeminent building block supplier to the worldwide Internet economy by focusing on our core competencies in silicon design and manufacturing, and digital computing and communications. Our primary focus areas are the desktop and mobile platforms, the server platform, the networking and communications platform, and the handheld computing platform. The platforms are supported by our four silicon architectures for the Internet: IA-32, the Intel® Itanium™ processor family, the Intel® Internet Exchange Architecture (Intel® IXA) and the Intel® Personal Internet Client Architecture (Intel® PCA).

Intel Architecture > The Intel Architecture operating segment supports the desktop and mobile platforms with the IA-32 architecture. The IA-32 architecture includes both the Intel NetBurst and P6 microarchitectures. Our strategy for desktop and mobile platforms is to introduce ever higher performance microprocessors and chipsets, tailored for the different market segments of the worldwide computing market, using a tiered branding approach. In line with our strategy, we deliver the Pentium 4 processor for the performance and mainstream market segments, focused on both home and business applications. These applications are optimized for consumers who want to take advantage of the latest Web technologies, such as broadband, interactive 3D, and streaming video and audio. (See "Contingencies" in the "Notes to consolidated financial statements" for a discussion of patent litigation by VIA Technologies, Inc. relating to the Pentium 4 processor.) We also deliver the Intel Celeron processor for the value market segment. To further enhance the acceptance and deployment of these products, we drive initiatives that will support technologies that address wireless solutions, software enabling, security and extended battery life for mobile personal computers (PCs). We also strive to align the industry, our customers and end users to increase acceptance of the desktop and mobile platforms by working with standards bodies, trade associations, original equipment manufacturers and independent software vendors.

The Intel Architecture operating segment also supports the server platform with the Intel Xeon processor family under the IA-32 architecture for workstations and mid-range to high-end servers, and the Intel Itanium processor family for enterprise-class servers. Our strategy for the server platform is to provide higher performance processors and the best price for performance for the various server and workstation market segments. In line with this strategy, we introduced a new version of the Intel Xeon processor running at 2.0 GHz, which established benchmark records in a broad range of server workload categories. In December 2001, we began shipping pilot systems of the next-generation Itanium processor, codenamed "McKinley." (See "Contingencies" in the "Notes to consolidated financial statements" for a discussion of patent litigation by Intergraph Corporation relating to the Itanium processor.) To further increase the acceptance and deployment of these server and workstation products by our customers, we also provide e-Business solutions and best practices through our Intel® e-Business Network. In 2001, we also broadened engagements with developers and solutions providers to make it easier for end users to deploy best-of-class solutions on Intel architecture products.

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, 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, and we have experienced an increase in the competitive product offerings in the performance desktop market segment and recently in the mobile market segment. We may continue to take various steps, including reducing microprocessor prices and offering rebates and other incentives, 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.

Intel Communications Group > Within the Intel Communications Group, our strategy for the networking and communications platform is based on three focus areas that we believe are defining trends for the Internet: Ethernet connectivity products, optical components and network processing components. Our strategy for Ethernet connectivity is to expand our product portfolio within the local area network (LAN) and to address the emerging metropolitan area network (MAN) and networked storage market segments. Within the LAN, we will invest in Gigabit Ethernet technologies and wireless technologies based on the 802.11 industry standards. In the storage market segment, we are developing products that enable storage resources to be added to any location on an Ethernet network. Our strategy for optical components is to deliver equipment based on industry standards, including Ethernet and data transport standards in the telecommunications industry (SONET/SDH), focused on the MAN and wide area network (WAN) market segments. We are providing 10-Gigabit Ethernet-based optical components at multiple levels of integration with increased speed and signal transmission distance. In network processing, our strategy is to deliver products that are

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the basic building blocks for modular networking infrastructure. These include advanced, programmable processors that are used to manage and direct data moving across the Internet and corporate networks.

Wireless Communications and Computing Group > Within the Wireless Communications and Computing Group, our strategy for the cellular handset and handheld computing platform is to deliver complete solutions that enable quick deployment of applications and services for wireless Internet and handheld computing devices. The Intel PCA architecture describes the separation of the communication and application building blocks for data-enabled cellular phones and portable handheld devices. By separating the communication and application elements within a device, Intel PCA allows for faster time-to-market for our customers and a standard, scalable platform for application development. Our current and expected future products for the handheld platform include flash memory, processors based on the Intel® StrongARM* processor and Intel® XScale™ microarchitecture, and cellular baseband chipsets.

The New Business Group > The New Business Group is chartered to develop and grow new businesses around our core capabilities. The group's current investments include Web hosting services, software and semiconductor products.

Outlook

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The U.S. Securities and Exchange Commission has defined the most critical accounting policies as the ones that are most important to the portrayal of our financial condition and results, and require us to make our most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical policies include: valuation of non-marketable equity securities, which impacts gains (losses) on equity securities when we record impairments; valuation of inventory, which impacts cost of sales and gross margin; and the assessment of recoverability of goodwill and other intangible assets, which impacts write-offs of goodwill and intangibles. Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other key accounting policies, such as our policies for revenue recognition, including the deferral of revenues on sales to distributors, and for estimating the useful lives of our manufacturing assets. We believe that these other policies either do not generally require us to make estimates and judgments that are as difficult or as subjective, or it is less likely that they would have a material impact on our reported results of operations for a given period.

In general, as we look ahead to the rest of 2002, economic indicators remain weak, and we continue to be cautious, although the steep declines we saw over the past year appear to have abated. We expect to be ready for a turn in the economy, with products, capacity and people in place, but we cannot predict when that will happen. Although it is difficult to predict product demand in 2002, we expect continued growth in the total number of computers using the Intel Pentium 4 processor based on the new Intel NetBurst microarchitecture. The flash memory business within the Wireless Communications and Computing Group remains soft due to flattening sales of cellular phones, and we continue to see weak demand from telecommunications customers in the Intel Communications Group.

Our financial results are substantially dependent on sales of microprocessors and related components by the Intel Architecture operating segment. 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 performance desktop, value desktop, mobile and server microprocessors, the mix of types of microprocessors sold 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 conditions in the worldwide computing industry are dependent in part on the growth in Internet use and the expansion of Internet product offerings. Our expectations are also subject to the impact of economic conditions in various geographic regions.

Our gross margin expectation for 2002 is 51% plus or minus a few points, and 51% is two points higher than the 2001 gross margin of 49%. The gross margin percentage should benefit from revenue growth and expected cost savings as we ramp the 0.13-micron manufacturing process in 2001. 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 other semiconductor and non-semiconductor products. Our policy for valuation of inventory, including the determination of obsolete or excess inventory, requires us to estimate the future demand for our products within specific time horizons, generally six months or less. The estimates of future demand that we use in the valuation of inventory are also used for near-term factory planning, and are consistent with our published revenue forecast. If our demand forecast is greater than actual demand and we fail to reduce manufacturing output accordingly, we would likely be required to record additional inventory reserves, which would have a negative impact on our gross margin. Various other factors—including unit volumes, yield issues associated with production at factories, ramp of new technologies, excess or shortage of manufacturing capacity and the reusability of factory equipment—will also continue to affect cost of sales and the variability of gross margin percentages.

We have significantly 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. However, we expect that capital spending will decrease to approximately $5.5 billion in 2002 from $7.3 billion in 2001. The reduction is primarily the result of expected improvements in capital efficiency as we transition to the larger, 300-millimeter wafer manufacturing process and the timing of manufacturing process technology cycles. If market demand does not 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 the rate of capital spending could be reduced. Revenues and gross margin may also be affected if we do not add capacity fast enough to meet market demand. This capital spending plan is dependent on expectations regarding production efficiencies and delivery times of various machinery and equipment, and construction schedules for new facilities. Depreciation for 2002 is expected to be approximately $4.6 billion, compared to $4.1 billion in 2001. Most of this increase would be included in cost of sales and research and development spending.

Our industry 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 2002, excluding purchased in-process research and development, is expected to increase to approximately $4.1 billion from $3.8 billion in 2001. The higher spending is primarily for next-generation manufacturing technology, including development of 90-nanometer (0.09-micron) manufacturing process technology on 300-millimeter wafer manufacturing. 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 expected to reduce our employee base by approximately 5,000 people over the remainder of 2001, primarily through attrition and a voluntary separation plan. We had exceeded this goal by the end of 2001.

We are completing the adoption of the FASB Statements of Financial Accounting Standards Nos. 141 and 142 on accounting for business combinations and goodwill as of the beginning of 2002. Accordingly, we will no longer amortize goodwill from acquisitions, but will continue to amortize other acquisition-related intangibles and costs. Consequently, we expect amortization of acquisition-related intangibles and costs to be approximately $440 million for 2002, down from $2.3 billion of amortized goodwill and acquisition-related intangibles and costs in 2001.

In conjunction with the implementation of the new accounting rules for goodwill, as of the beginning of fiscal 2002, we have completed a goodwill impairment review for the Intel Communications Group and the Wireless Communications and Computing Group, the reporting units that have substantially all of our recorded goodwill, and found no impairment. According to our accounting policy under the new rules, we will perform a similar review annually, or earlier if indicators of potential impairment exist. Our impairment review is based on a discounted cash flow approach that uses our estimates of future market share and revenues and costs for these groups as well as appropriate discount rates. The estimates we have used are consistent with the plans and estimates that we are using to manage the underlying businesses. If we fail to deliver new products for these groups, if the products fail to gain expected market acceptance, or if market conditions in the communications businesses fail to improve, our revenue and cost forecasts may not be achieved, and we may incur charges for impairment of goodwill.

During 2000 and 2001, we sold most of our portfolio of marketable strategic equity securities; however, at the end of 2001, we held $1.3 billion in non-marketable equity securities. Our ability to recover our investments in non-marketable equity securities and to earn a return on these investments is largely dependent on equity market conditions and the occurrence of liquidity events, such as initial public offerings, mergers and private sales. All of these factors are difficult to predict, particularly in the current economic environment. In addition, under our accounting policy, we are required to review all of our investments for impairment. For non-marketable equity securities, this requires significant judgment, including assessment of the investees' financial condition, the existence of subsequent rounds of financing and the impact of any relevant contractual preferences, as well as the investees' historical results of operations, and projected results and cash flows. If the actual outcomes for the investees are significantly different from our projections, our recorded impairments may be understated, and we may incur additional charges in future periods.

We currently expect our tax rate to be approximately 28.4% for 2002, excluding the impact of costs from 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.

On January 1, 2002, the national currencies of 12 European countries were replaced with the Euro. During the three-year transition period, our conversion of systems and processes was successfully completed with no material impact on our operations. The introduction of the Euro has not materially affected our currency exchange and hedging activities, and has not resulted in any material increase in costs.

We are currently a 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 and in our strategy discussion involve a number of risks and uncertainties—in particular the statements regarding our goals and strategies, expectations regarding new product introductions, plans to cultivate new business to expand the Internet, future economic conditions, revenues, pricing, gross margin and costs, capital spending, depreciation and amortization, research and development expenses, potential impairment of investments, the tax rate 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 trends in the computing and communications industries in various geographic regions; possible disruption in commercial activities related to terrorist activity and armed conflict, such as changes in logistics and security arrangements, and reduced end-user purchases relative to expectations; the impact of events outside the United States, such as the business impact of fluctuating currency rates, unrest or political instability in a locale, such as unrest in Israel; changes in customer order patterns; competitive factors such as competing 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; excess or obsolete inventory and variations in inventory valuation; 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 transition to 0.13-micron manufacturing process technology; excess manufacturing capacity; the ability to sustain and grow networking, communications, wireless and other Internet-related businesses, and successfully integrate and operate any acquired businesses; unanticipated costs or other adverse effects associated with processors and other products containing errata (deviations from published specifications); and litigation involving intellectual property, stockholder 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.

Consolidated statements of income

Three years ended December 29, 2001 **(In millions—except per share amounts)**	**2001**	**2000**	**1999**
Net revenues	**$ 26,539**	**$ 33,726**	**$ 29,389**
Cost of sales	13,487	12,650	11,836
Research and development	3,796	3,897	3,111
Marketing, general and administrative	4,464	5,089	3,872
Amortization of goodwill and other acquisition-related intangibles and costs	2,338	1,586	411
Purchased in-process research and development	198	109	392
Operating costs and expenses	24,283	23,331	19,622
Operating income	**2,256**	**10,395**	**9,767**
Gains (losses) on equity securities, net	(466)	3,759	883
Interest and other, net	393	987	578
Income before taxes	**2,183**	**15,141**	**11,228**
Provision for taxes	892	4,606	3,914
Net income	**$ 1,291**	**$ 10,535**	**$ 7,314**
Basic earnings per common share	**$ 0.19**	**$ 1.57**	**$ 1.10**
Diluted earnings per common share	**$ 0.19**	**$ 1.51**	**$ 1.05**
Weighted average common shares outstanding	**6,716**	**6,709**	**6,648**
Weighted average common shares outstanding, assuming dilution	**6,879**	**6,986**	**6,940**

See accompanying notes.

Consolidated balance sheets

December 29, 2001 and December 30, 2000 **(In millions-except par value)**	**2001**	**2000**
Assets		
Current assets:		
Cash and cash equivalents	$ 7,970	$ 2,976

Short-term investments	2,356	10,497
Trading assets	1,224	350
Accounts receivable, net of allowance for doubtful accounts of $68 ($84 in 2000)	2,607	4,129
Inventories	2,253	2,241
Deferred tax assets	958	721
Other current assets	265	236
Total current assets	**17,633**	**21,150**
Property, plant and equipment:		
Land and buildings	10,709	7,416
Machinery and equipment	21,605	15,994
Construction in progress	2,042	4,843
	34,356	28,253
Less accumulated depreciation	16,235	13,240
Property, plant and equipment, net	**18,121**	**15,013**
Marketable strategic equity securities	**155**	**1,915**
Other long-term investments	**1,319**	**1,797**
Goodwill, net	**4,330**	**4,977**
Acquisition-related intangibles, net	**797**	**964**
Other assets	**2,040**	**2,129**
Total assets	**$ 44,395**	**$ 47,945**
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	$ 409	$ 378
Accounts payable	1,769	2,387
Accrued compensation and benefits	1,179	1,696
Accrued advertising	560	782
Deferred income on shipments to distributors	418	674
Other accrued liabilities	1,247	1,440
Income taxes payable	988	1,293
Total current liabilities	**6,570**	**8,650**
Long-term debt	**1,050**	**707**
Deferred tax liabilities	**945**	**1,266**
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 50 shares authorized; none issued	—	—
Common stock, $0.001 par value, 10,000 shares authorized; 6,690 issued and outstanding (6,721 in 2000) and capital in excess of par value	8,833	8,486
Acquisition-related unearned stock compensation	(178)	(97)
Accumulated other comprehensive income	25	195
Retained earnings	27,150	28,738
Total stockholders' equity	**35,830**	**37,322**
Total liabilities and stockholders' equity	**$ 44,395**	**$ 47,945**

See accompanying notes.

Consolidated statements of cash flows

Three years ended December 29, 2001 (In millions)	**2001**	**2000**	**1999**
Cash and cash equivalents, beginning of year	**$ 2,976**	**$ 3,695**	**$ 2,038**
Cash flows provided by (used for) operating activities:			
Net income	1,291	10,535	7,314
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation	4,131	3,249	3,186
Amortization of goodwill and other acquisition-related intangibles and costs	2,338	1,586	411
Purchased in-process research and development	198	109	392
(Gains) losses on equity investments, net	466	(3,759)	(883)
(Gain) loss on investment in Convera	196	(117)	—
Net loss on retirements of property, plant and equipment	119	139	193
Deferred taxes	(519)	(130)	(219)
Tax benefit from employee stock plans	435	887	506
Changes in assets and liabilities:			
Trading assets	898	38	(72)
Accounts receivable	1,561	(384)	153
Inventories	24	(731)	169

Accounts payable	(673)	978	79
Accrued compensation and benefits	(524)	231	127
Income taxes payable	(270)	(362)	726
Other assets and liabilities	(1,017)	558	52
Total adjustments	7,363	2,292	4,820
Net cash provided by operating activities	**8,654**	**12,827**	**12,134**
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(7,309)	(6,674)	(3,403)
Acquisitions, net of cash acquired	(883)	(2,317)	(2,979)
Purchases of available-for-sale investments	(7,141)	(17,188)	(7,055)
Maturities and sales of available-for-sale investments	15,398	17,124	7,987
Other investing activities	(260)	(980)	(799)
Net cash used for investing activities	**(195)**	**(10,035)**	**(6,249)**
Cash flows provided by (used for) financing activities:			
Increase in short-term debt, net	23	138	69
Additions to long-term debt	306	77	118
Repayment and retirement of long-term debt	(10)	(46)	—
Proceeds from sales of shares through employee stock plans and other	762	797	543
Proceeds from sales of put warrants	—	—	20
Repurchase and retirement of common stock	(4,008)	(4,007)	(4,612)
Payment of dividends to stockholders	(538)	(470)	(366)
Net cash used for financing activities	**(3,465)**	**(3,511)**	**(4,228)**
Net increase (decrease) in cash and cash equivalents	**4,994**	**(719)**	**1,657**
Cash and cash equivalents, end of year	**$ 7,970**	**$ 2,976**	**$ 3,695**
Supplemental disclosures of cash flow information: Cash paid during the year for:			
Interest	$ 53	$ 43	$ 40
Income taxes	$ 1,208	$ 4,209	$ 2,899

See accompanying notes.

Consolidated statements of stockholders' equity

Three years ended December 29, 2001 (In millions—except per share amounts)	Common stock and capital in excess of par value		Acquisition-related unearned stock compensation	Accumulated other comprehensive income	Retained earnings	Total
	Number of shares	Amount				
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 net 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 net 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**
Components of comprehensive income:						
Net income	—	—	—	—	1,291	1,291
Change in net unrealized gain on available-for-sale investments, net of tax	—	—	—	(163)	—	(163)
Change in net unrealized loss on derivatives, net of tax	—	—	—	(7)	—	(7)
Total comprehensive income						1,121
Proceeds from sales of shares through employee stock plans, tax benefit of $435 and other	81	1,197	—	—	—	1,197
Issuance of common stock and aassumption of stock options in connection with acquisitions, net	21	817	(255)	—	—	562
Amortization of acquisition-related unearned stock compensation	—	—	174	—	—	174
Repurchase and retirement of common stock	(133)	(1,667)	—	—	(2,341)	(4,008)
Cash dividends declared ($0.080 per share)	—	—	—	—	(538)	(538)
Balance at December 29, 2001	**6,690**	**$ 8,833**	**$ (178)**	**$ 25**	**$ 27,150**	**$ 35,830**

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 2001, a 52-week year, ended on December 29, 2001. Fiscal year 2000 was a 53-week year that ended on December 30, while 1999, a 52-week year, ended on December 25. 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. Intercompany accounts and transactions have been eliminated. Partially owned equity affiliates are accounted for under the equity method. Accounts denominated in non-U.S. 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 judgments that affect the amounts reported in the financial statements and accompanying notes. The critical accounting policies that require management's most significant estimates and judgments include valuation of non-marketable equity securities, valuation of inventory, and the assessment of recoverability of goodwill and other intangible assets. The actual results experienced by the company may differ materially from management's estimates.

Recent accounting pronouncements > In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Beginning in the first quarter of fiscal 2002, the company will no longer amortize goodwill, but will perform impairment tests annually, or earlier if indicators of potential impairment exist. All other intangible assets continue to be amortized over their estimated useful lives. In conjunction with the implementation of SFAS No. 142, the company has completed a goodwill impairment review as of the beginning of fiscal 2002 using a fair-value based approach in accordance with provisions of that standard and found no impairment. Based on acquisitions completed as of June 30, 2001, application of the goodwill non-amortization provisions is expected to result in a decrease in amortization of approximately $1.6 billion for fiscal year 2002.

Accounting change > Effective as of the beginning of 2001, the company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires the company to recognize all derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for gains or losses from changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, as well as on the type of hedging relationship.

The cumulative effect of the adoption of SFAS No. 133 was an increase in income before taxes of $45 million, which is included in interest and other, net for 2001. The adoption did not have a material effect on other comprehensive income.

Cash and cash equivalents > 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.

Investments > The company's investments consist of:

Trading assets. The company elects to classify as trading assets certain marketable debt and equity securities. The interest, currency and/or equity market risks inherent in these investments are generally mitigated through the use of derivative instruments. Also included in trading assets is a marketable equity portfolio held to generate returns that offset changes in liabilities related to certain deferred compensation arrangements. Trading assets are stated at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. For marketable debt securities, gains or losses from changes in fair value, offset by losses or gains on related derivatives, are included in interest and other, net. For marketable equity securities having related derivative instruments, gains or losses from changes in fair value, offset or partially offset by losses or gains on the derivatives, are included in gains (losses) on equity securities, net. For other marketable equity securities related to deferred compensation arrangements, gains or losses from changes in fair value, offset by losses or gains on the related liabilities, are included in interest and other, net.

Available-for-sale investments. Investments designated as available-for-sale include marketable debt and equity securities. Investments that are designated as available-for-sale as of the balance sheet date 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. Realized gains and losses on the sale of debt securities are recorded in interest and other, net. Realized gains or losses on the sale or exchange of equity securities and declines in value judged to be other than temporary are recorded in gains (losses) on equity securities, net. Marketable equity securities are presumed to be impaired if the fair value is less than the cost basis for six months, absent compelling evidence to the contrary.

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 acquires certain equity investments for the promotion of business and strategic objectives, and to the extent these investments continue to have strategic value, the company typically does not attempt to reduce or eliminate the inherent market risks. The marketable portion of these investments is classified separately as marketable strategic equity securities.

Non-marketable equity securities and other investments. Non-marketable equity securities and other investments are accounted for at historical cost or, if Intel has significant influence over the investee, using the equity method. The company's proportionate share of income or losses from investments accounted for under the equity method and any gain or loss on disposal is recorded in interest and other, net. Non-marketable equity securities and other investments, as well as equity-method investments, are included in other assets. Non-marketable equity securities are subject to a periodic impairment review, including assessment of the investee's financial condition, the existence of subsequent rounds of financing and the impact of any relevant contractual preferences, as well as the investee's historical results of operations, projected results and cash flows. Impairment of non-marketable equity investments is recorded in gains (losses) on equity securities, net.

Securities lending > The company, from time to time, enters into secured lending agreements with financial institutions, generally to facilitate hedging transactions. Selected securities are loaned for short periods of time and are secured by collateral in the form of cash or securities. The loaned securities continue to be carried as investment assets on the balance sheet. Cash collateral is recorded as an asset with a corresponding liability. For lending agreements collateralized by securities, the collateral is not recorded as an asset or a liability, unless the collateral is repledged (see "Short-term debt" under "Borrowings").

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, certain non-marketable investments, short-term debt, long-term debt, swaps, currency forward contracts, equity options and warrants are based on quoted market prices or pricing models using current market rates. Debt securities are generally valued using discounted cash flows in an industry-standard yield-curve model based on LIBOR. Equity options and warrants are priced using a Black-Scholes option valuation model. For certain non-marketable equity securities, fair value is estimated based on prices recently paid for shares in that company. All of the estimated fair values are management's estimates; however, when there is no readily available market, the fair values may not necessarily represent the amounts that could be realized in a current transaction.

Derivative financial instruments > The company's primary objective for holding derivative financial instruments is to manage interest rate, non-U.S. currency and some equity market risks. The company's derivative instruments are recorded at fair value and are included in other current assets, other assets, other accrued liabilities or long-term debt. The company's accounting policies for these instruments are based on whether they meet the company's criteria for designation as hedging transactions, either as cash flow or fair value hedges. A hedge of the exposure to variability in the cash flows of an asset or a liability, or of a forecasted transaction, is referred to as a cash flow hedge. A hedge of the exposure to changes in fair value of an asset or a liability, or of an unrecognized firm commitment, is referred to as a fair value hedge. The criteria for designating a derivative as a hedge include the instrument's effectiveness in risk reduction and in most cases a one-to-one matching of the derivative instrument to its underlying transaction. Gains and losses on derivatives that are not designated as hedges for accounting purposes are recognized currently in earnings, and generally offset changes in the values of related assets, liabilities or debt.

As part of its strategic investment program, the company also acquires equity derivative instruments, such as warrants, that are not designated as hedging instruments. The gains or losses from changes in fair values of these equity derivatives are recognized in gains (losses) on equity securities, net.

Currency risk. The company transacts business in various non-U.S. currencies, primarily Japanese yen and certain other Asian and European currencies. The company has established revenue, expense and balance sheet risk management programs to protect against reductions in value and volatility of future cash flows caused by changes in exchange rates. The company uses currency forward contracts, currency options, borrowings in various currencies and currency interest rate swaps in these risk management programs. These programs reduce, but do not always entirely eliminate, the impact of currency exchange movements.

Currency forward contracts and currency options that are used to hedge exposures to variability in anticipated non-U.S.-dollar- denominated cash flows are designated as cash flow hedges. The maturities of these instruments are generally less than 12 months. For these derivatives, the effective portion of the gain or loss is reported as a component of other comprehensive income in stockholders' equity and is reclassified into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item. The ineffective portion of the gain or loss on the derivative in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in interest and other, net during the period of change. Prior to the adoption of SFAS No. 133, derivatives hedging the currency risk of future cash flows were not recognized on the balance sheet.

Currency interest rate swaps and currency forward contracts are used to offset the currency risk of non-U.S.-dollar-denominated debt securities classified as trading assets, as well as other assets and liabilities denominated in various currencies. Changes in fair value of the underlying assets and liabilities are generally offset by the changes in fair value of the related derivatives, with the resulting net gain or loss, if any, recorded in interest and other, net.

Interest rate risk. The company's primary objective for holding 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 the company's investments in long-term fixed-rate marketable debt securities are swapped to U.S. dollar LIBOR-based returns, using interest rate swaps and currency interest rate swaps in transactions that are not designated as hedges for accounting purposes. The floating interest rates on the swaps are reset on a monthly, quarterly or semiannual basis. Changes in fair value of the debt securities classified as trading assets are generally offset by changes in fair value of the related derivatives, resulting in negligible net impact. The net gain or loss, if any, is recorded in interest and other, net.

The company also enters into interest rate swap agreements to modify the interest characteristics of its outstanding long-term debt. These transactions are designated as fair value hedges. The gains or losses from the changes in fair value of the interest rate swaps, as well as the offsetting change in the hedged fair value of the long-term debt, are recognized in interest expense. Prior to the adoption of SFAS No. 133, interest rate swaps related to long-term debt were not recognized on the balance sheet, nor were the changes in the hedged fair value of the debt.

Equity market risk. The company may enter into transactions designated as fair value hedges using equity options, swaps or forward contracts to hedge the equity market risk of marketable securities in its portfolio of strategic equity investments once the securities are no longer considered to have strategic value. The gain or loss from the change in fair value of these equity derivatives, as well as the offsetting change in hedged fair value of the related strategic equity securities, are recognized currently in gains or losses on equity investments, net. The company also uses equity derivatives in transactions not designated as hedges to offset the change in fair value of certain equity securities classified as trading assets. The company may or may not enter into transactions to reduce or eliminate the market risks of its investments in strategic equity derivatives, including warrants. Prior to the adoption of SFAS No. 133, warrants were not considered to be derivative instruments for accounting purposes and were not marked-to-market.

Measurement of effectiveness of hedge relationships. For currency forward contracts, effectiveness of the hedge is measured using forward rates to value the forward contract and the forward value of the underlying hedged transaction. For currency options and equity options, effectiveness is measured by the change in the option's intrinsic value, which represents the change in the option's strike price compared to the spot price of the underlying hedged transaction. Not included in the assessment of effectiveness are the changes in time value of these options. For interest rate swaps, effectiveness is measured by offsetting the change in fair value of the long-term debt with the change in fair value of the interest rate swap.

Any ineffective portions of the hedge, as well as amounts not included in the assessment of effectiveness, are recognized currently in interest and other, net or in gains (losses) on equity investments, net, depending on the nature of the underlying asset or liability. If a cash flow hedge were to be discontinued because it is probable that the original hedged transaction will not occur as anticipated, the unrealized gains or losses would be reclassified into earnings. Subsequent gains or losses on the related derivative instrument would be recognized in income in each period until the instrument matures, is terminated or is sold.

During 2001, the portion of hedging instruments' gains or losses excluded from the assessment of effectiveness and the ineffective portions of hedges had no material impact on earnings for either cash flow or fair value hedges. No cash flow hedges were discontinued as a result of forecasted transactions that did not occur.

Inventories **>** Inventory cost is computed on a currently adjusted standard basis (which approximates actual cost on a current average or first-in, first-out basis). Work in process and finished goods inventory are determined to be saleable based on a demand forecast within a specific time horizon, generally six months or less. Inventory in excess of saleable amounts is not valued, and the remaining inventory is valued at the lower of cost or market. Inventories at fiscal year-ends were as follows:

(In millions)	2001	2000
Raw materials	$ 237	$ 384
Work in process	1,316	1,057
Finished goods	700	800
Total	**$ 2,253**	**$ 2,241**

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 useful life is shorter than originally estimated or 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 lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

Goodwill and other acquisition-related intangibles **>** Goodwill is recorded when the consideration paid for an acquisition exceeds the fair value of identifiable net tangible and intangible assets acquired. Through December 29, 2001, goodwill has been amortized over an estimated life of 2 - 6 years. Goodwill is presented net of accumulated amortization of $3.0 billion at December 29, 2001 and $1.6 billion at December 30, 2000. During 2001, goodwill was reduced by $125 million, primarily related to the reduction of a valuation allowance on deferred tax assets due to changes in the realizability of certain tax benefits related to companies acquired in the current and prior years.

Through fiscal 2001, goodwill and other acquisition-related intangibles were reviewed for recoverability periodically and whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. The carrying amount was compared to the undiscounted cash flows of the businesses acquired, and if the review indicated that these intangibles were not recoverable, their carrying amount was reduced by the estimated shortfall of the undiscounted cash flows for goodwill and discounted cash flows for other acquisition-related intangibles. As a result of these reviews, $124 million of goodwill and acquisition-related intangibles was written off in fiscal 2001.

Acquisition-related intangibles, comprised primarily of developed technology, are amortized on a straight-line basis over periods ranging from 2-6 years. Acquisition-related intangibles are presented net of accumulated amortization of $623 million at December 29, 2001 and $389 million at December 30, 2000.

Amortization of goodwill and other acquisition-related intangibles and costs was $2.3 billion for 2001. This amount includes $1.6 billion of amortization of goodwill, $347 million of amortization of other acquisition-related intangibles (a substantial majority of which was related to developed technology) and write-offs of $124 million. In addition, the total includes $174 million of amortization of acquisition-related stock compensation costs (see "Acquisition-related unearned stock compensation") and $81 million of amortization of other acquisition-related costs.

Revenue recognition **>** The company recognizes net revenues when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title and acceptance if applicable, fixed pricing and probable collectibility. Because of frequent sales price reductions and rapid technology obsolescence in the industry, sales made to distributors under agreements allowing price protection and/or right of return are deferred until the distributors sell the merchandise.

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 $1.6 billion in 2001 ($2.0 billion in 2000 and $1.7 billion in 1999).

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)	2001	2000	1999
Weighted average common shares outstanding	**6,716**	**6,709**	**6,648**
Dilutive effect of:			
Employee stock options	163	272	289
Convertible notes	—	5	3
Weighted average common shares outstanding, assuming dilution	**6,879**	**6,986**	**6,940**

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, for the period the notes were outstanding. Approximately 211 million of the company's stock options were excluded from the calculation of diluted earnings per share for 2001 (34 million in 2000 and 8 million in 1999). These options were excluded because they were antidilutive, but they could be dilutive in the future.

Reclassifications **>** Certain amounts reported in previous years have been reclassified to conform to the 2001 presentation.

Common stock

Stock repurchase program > The company has an ongoing authorization, as amended, from the Board of Directors to repurchase up to 1.8 billion shares of Intel's common stock in open market or negotiated transactions. During 2001, the company repurchased 133 million shares of common stock at a cost of $4 billion. As of December 29, 2001, the company had repurchased and retired approximately 1.5 billion shares at a cost of $26 billion since the program began in 1990. As of December 29, 2001, 293 million shares remained available under the repurchase authorization.

Prior to 2001, the company sold put warrants that allowed the holder to sell one share of stock to the company at a specified price. During 1999, the company received premiums of $20 million. As of December 29, 2001 and December 30, 2000, no put warrants were outstanding.

Borrowings

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

(In millions)	2001	2000
Drafts payable (non-interest-bearing)	$ 224	$ 368
Floating rate obligations under securities lending agreements	153	—
Other short-term debt	18	—
Current portion of long-term debt	14	10
Total	**$ 409**	**$ 378**

Obligations under securities lending agreements had an average rate of 1.75% as of December 29, 2001. The company also borrows under commercial paper programs. Maximum borrowings under commercial paper programs reached $105 million during 2001 and $539 million during 2000. 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)	2001	2000
Payable in U.S. dollars:		
Puerto Rico bonds adjustable 2003, due 2013 at 3.9%—4.25%	$ 116	$ 110
Zero coupon senior exchangeable notes due 2004	256	—
Other U.S. dollar debt	5	5
Payable in other currencies:		
Euro debt due 2001—2027 at 3.5%—13%	687	602
	1,064	717
Less current portion of long-term debt	(14)	(10)
Total	**$ 1,050**	**$ 707**

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 April 2001, the company issued zero coupon senior exchangeable notes for net proceeds of $208 million in a private placement. The note holders have the right to exchange their Intel notes for Samsung Electronics Co., Ltd. convertible notes (Samsung notes) owned by Intel. The Intel note holders may exercise their exchange option any time prior to January 12, 2004. The exchangeable notes were issued in order to partially mitigate the equity market risk of Intel's investment in the Samsung notes, and the exchange option is accounted for as an equity derivative and marked-to-market. The carrying value of the debt instrument, excluding the portion allocated to the equity derivative, is being accreted to its principal amount of $200 million through interest expense over the period to its maturity. The Intel notes are redeemable by Intel at any time.

In September 2000, all of the company's convertible subordinated notes, with a carrying value of $207 million, were exchanged for approximately 7.4 million shares of unregistered Intel common stock.

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

As of December 29, 2001, aggregate debt maturities were as follows: 2002—$14 million; 2003—$142 million; 2004—$285 million; 2005—$34 million; 2006—$36 million; and thereafter—$553 million.

Investments

Trading assets > In addition to the debt and equity investments that are offset by related derivatives, a portion of the company's trading asset portfolio consists of equity securities that are maintained to generate returns that partially offset changes in liabilities related to certain deferred compensation arrangements. The company also uses fixed income investments and derivative instruments to offset the remaining portion of the changes in the compensation liabilities. The deferred compensation liabilities were $399 million in 2001 and $392 million in 2000, and are included in other accrued liabilities on the consolidated balance sheets. Net gains (losses) on all trading assets were $7 million in 2001, $(41) million in 2000 and $44 million in 1999, and these gains and losses were offset by gains and losses on the related derivatives and liabilities.

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

	2001		2000	
(In millions)	Net unrealized gains (losses)	Estimated fair value	Net unrealized gains (losses)	Estimated fair value
Debt instruments	$ (15)	$ 836	$ —	$ —
Equity securities	72	74	—	—
Equity securities offsetting deferred compensation	35	314	(39)	350
Total trading assets	**$ 92**	**$ 1,224**	**$ (39)**	**$ 350**

Upon initial adoption of SFAS No. 133 at the beginning of 2001, approximately $1.4 billion of available-for-sale investments in marketable debt securities that had related derivative instruments were reclassified to trading assets. At the same time, the related derivatives were reclassified to other current assets, other assets or other accrued liabilities. These investments and derivatives had total associated unrealized gains of $57 million and unrealized losses of $56 million.

Available-for-sale investments > Available-for-sale investments at December 29, 2001 were as follows:

(In millions)	Adjusted cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Commercial paper	$ 6,329	$ 2	$ —	$ 6,331
Bank time deposits	2,047	1	(1)	2,047

Corporate bonds	911	1	—	912
Loan participations	838	—	—	838
Floating rate notes	795	1	—	796
Other debt securities	371	—	—	371
Marketable strategic equity securities	109	48	(2)	155
Preferred stock and other equity	104	—	—	104
Total available-for-sale investments	**11,504**	**53**	**(3)**	**11,554**
Less amounts classified as cash equivalents	(7,724)	—	—	(7,724)
	$ 3,780	**$ 53**	**$ (3)**	**$ 3,830**

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

(In millions)	Adjusted 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
Marketable strategic equity securities	1,623	756	(464)	1,915
Corporate bonds	1,195	5	(16)	1,184
Loan participations	903	—	—	903
Other debt securities	416	—	—	416
Preferred stock and other equity	109	—	—	109
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**

The company sold available-for-sale securities with a fair value at the date of sale of $1.3 billion in 2001, $4.2 billion in 2000 and $1.0 billion in 1999. The gross realized gains on these sales totaled $548 million in 2001, $3.4 billion in 2000 and $883 million in 1999. The company realized gross losses on sales of $187 million in 2001, $52 million in 2000 and none in 1999. The company recognized gains on shares exchanged in third-party merger transactions of $156 million in 2001 and $682 million in 2000. The company recognized impairment losses on available-for-sale and non-marketable investments of $1.1 billion in 2001 and $297 million in 2000. For 2001, the company also recognized $122 million of net marked-to-market gains on equity trading assets and equity derivatives.

The amortized cost and estimated fair value of available-for-sale investments in debt securities at December 29, 2001, by contractual maturity, were as follows:

(In millions)	Cost	Estimated fair value
Due in 1 year or less	$ 9,990	$ 9,993
Due in 1-2 years	679	680
Due in 2-5 years	107	107
Due after 5 years	515	515
Total investments in available-for- sale debt securities	**$ 11,291**	**$ 11,295**

Fair values of financial instruments

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

	2001		2000	
(In millions—assets (liabilities))	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Cash and cash equivalents	$ 7,970	$ 7,970	$ 2,976	$ 2,976
Short-term investments	$ 2,356	$ 2,356	$ 10,498	$ 10,498
Trading assets	$ 1,224	$ 1,224	$ 355	$ 355
Marketable strategic equity securities	$ 155	$ 155	$ 1,915	$ 1,915
Other long-term investments	$ 1,319	$ 1,319	$ 1,801	$ 1,801
Non-marketable equity securities	$ 1,276	$ 1,719	$ 1,726	$ 2,912
Other non-marketable instruments	$ 161	$ 161	$ 148	$ 148
Warrants and other equities marked-to-market as derivatives in 2001	$ 172	$ 172	$ 12	$ 36
Options hedging or offsetting equities	$ 51	$ 51	$ —	$ —
Swaps related to investments in debt securities	$ 12	$ 12	$ 12	$ 12
Options related to deferred compensation liabilities	$ (6)	$ (6)	$ (5)	$ (5)
Short-term debt	$ (409)	$ (409)	$ (378)	$ (378)
Long-term debt	$ (1,050)	$ (1,045)	$ (707)	$ (702)
Swaps hedging debt	$ 4	$ 4	$ —	$ (1)
Currency forward contracts	$ 1	$ 1	$ 2	$ 6

Due to restrictions on sales extending beyond one year, publicly traded securities with a carrying value of $85 million and an estimated fair value of $210 million were classified as non-marketable equity securities at December 29, 2001. At December 30, 2000, similarly restricted securities had a carrying amount of $109 million and an estimated fair value of $631 million.

Concentrations of credit risk

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of investments in debt securities, derivative financial instruments 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. 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. Government regulations

imposed on investment alternatives of non-U.S. subsidiaries, or the absence of A and A2 rated counterparties in certain countries, result in some minor exceptions. Credit rating criteria for derivative instruments are similar to those for investments. The amounts subject to credit risk related to derivative instruments are generally limited to the amounts, if any, by which a counterparty's obligations exceed the obligations of Intel with that counterparty. At December 29, 2001, debt investments were placed with approximately 180 different counterparties. Intel's practice is to obtain and secure available collateral from counterparties against obligations, including securities lending transactions, whenever Intel deems appropriate.

A 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 38% of net revenues for 2001. At December 29, 2001, these customers accounted for approximately 41% of net accounts receivable.

The company endeavors to keep pace with the evolving computer and communications 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)	2001	2000	1999
Interest income	$ 615	$ 920	$ 618
Interest expense	(56)	(35)	(36)
Gain (loss) on investment in Convera	(196)	117	—
Other, net	30	(15)	(4)
Total	**$ 393**	**$ 987**	**$ 578**

In December 2000, Intel contributed its Interactive Media Services division to Convera Corporation 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 did not retain an ownership interest. During 2001, Intel recorded a loss of approximately $39 million as its proportionate share of Convera's loss and recognized a combined net loss of $157 million on the impairment and subsequent sale of the remaining investment.

Comprehensive income

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

(In millions)	2001	2000	1999
Change in net unrealized gain on investments, net of tax of $187, $620 and $(2,026) in 2001, 2000 and 1999, respectively	$ (347)	$ (1,153)	$ 3,762
Less: adjustment for net gain or loss realized and included in net income, net of tax of $(99), $1,316 and $309 in 2001, 2000 and 1999, respectively	184	(2,443)	(574)
Change in net unrealized loss on derivatives, net of tax of $4 in 2001	(7)	—	—
Other comprehensive income	**$ (170)**	**$ (3,596)**	**$ 3,188**

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

(In millions)	2001	2000
Accumulated net unrealized gain on available-for-sale investments	$ 32	$ 195
Accumulated net unrealized loss on derivatives	(7)	—
Total accumulated other comprehensive income	**$ 25**	**$ 195**

Provision for taxes

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

(In millions)	2001	2000	1999
Income (loss) before taxes:			
U.S.	$ (350)	$ 11,162	$ 7,239
Non-U.S.	2,533	3,979	3,989
Total income before taxes	**$ 2,183**	**$ 15,141**	**$ 11,228**
Provision for taxes:			
Federal:			
Current	$ 903	$ 3,809	$ 3,356
Deferred	(417)	(65)	(162)
	486	3,744	3,194
State:			
Current	142	454	393
Non-U.S.:			
Current	366	473	384
Deferred	(102)	(65)	(57)
	264	408	327
Total provision for taxes	**$ 892**	**$ 4,606**	**$ 3,914**
Effective tax rate	**40.9%**	**30.4%**	**34.9%**

The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable for 2001 by $435 million ($887 million for 2000 and $506 million for 1999).

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)	2001	2000	1999
Computed expected tax	$ 764	$ 5,299	$ 3,930
State taxes, net of federal benefits	92	295	255
Non-U.S. income taxed at different rates	(336)	(363)	(239)
Non-deductible acquisition-related costs	667	444	274
Export sales benefit	(245)	(230)	(170)
Reversal of previously accrued taxes	—	(600)	—
Other	(50)	(239)	(136)
Provision for taxes	**$ 892**	**$ 4,606**	**$ 3,914**

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)	2001	2000
Deferred tax assets		
Accrued compensation and benefits	$ 120	$ 87
Accrued advertising	102	88
Deferred income	207	307
Inventory valuation and related reserves	209	120
Interest and taxes	89	52
Other, net	231	67
	958	721
Deferred tax liabilities		
Depreciation	(461)	(721)
Acquired intangibles	(280)	(309)
Unremitted earnings of certain subsidiaries	(164)	(131)
Unrealized gains on investments	(30)	(105)
Other, net	(10)	—
	(945)	(1,266)
Net deferred tax asset (liability)	**$ 13**	**$ (545)**

U.S. income taxes were not provided for on a cumulative total of approximately $5.5 billion of undistributed earnings for certain non-U.S. subsidiaries. The company intends to reinvest these earnings indefinitely in operations outside the United States.

The company reduced its tax provision for 2001 by $100 million, or approximately $0.015 per share, due to an increase in the calculated tax benefit related to export sales for 2000, including the impact of a revision in the tax law. This change in estimated taxes was reflected in the federal tax return for 2000 filed in September 2001.

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 > The company 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 broad-based stock option plan under which stock options may be granted to all employees other than officers and directors. During 2001, the Board of Directors approved an increase to the authorized shares under this plan, which made an additional 900 million shares available for grant to employees other than officers and directors. As of December 29, 2001, substantially all of our employees were participating in one of the stock option plans. The company's Executive Long-Term Stock Option Plan, under which certain key employees, including officers, were granted stock options, terminated in 1998. No further grants may be made under this plan, although options granted prior to the termination may remain outstanding. 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. Intel has also assumed the stock option plans and the outstanding options of certain acquired companies. No additional stock grants 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 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**
Supplemental grant	(51.9)	51.9	$ 25.69
2002 merit grant	(67.6)	67.6	$ 24.37
Other grants	(118.6)	118.6	$ 25.48
Options assumed in acquisitions	—	9.0	$ 19.25
Exercises	—	(68.0)	$ 6.06
Cancellations	45.1	(48.8)	$ 35.01
Additional shares reserved	900.0	—	—
December 29, 2001	**1,054.6**	**768.5**	**$ 25.33**
Options exercisable at:			
December 25, 1999		206.4	$ 4.71
December 30, 2000		195.6	$ 7.07
December 29, 2001		230.9	$ 11.27

In March 2001, a supplemental stock grant was given to employees who had been previously granted options with an exercise price above $30 per share. These additional grants were made in order to retain employees due to competitive market conditions and a decline in the company's stock price. The 2001 supplemental grants vest ratably over a two-year period from the date of grant.

In October 2001, the company granted merit-based options that would have been granted in 2002 in order to enhance the potential long-term retention value of these stock options. The company intends to reduce merit grants in 2002 by the shares in this early grant program. The 2002 merit grant vests in 2007, on about the same date it would vest if granted in 2002.

The range of option exercise prices for options outstanding at December 29, 2001 was $0.01 to $87.90. The range of exercise prices for options is wide, primarily due to the impact of assumed options of acquired companies that had experienced significant price fluctuations.

The following tables summarize information about options outstanding at December 29, 2001:

	Outstanding options		
Range of exercise prices	Number of	Weighted average	Weighted average

	shares (in millions)	contractual life (in years)	exercise price
$0.01-$17.40	187.3	3.2	$ 6.32
$17.42-$24.20	155.9	6.0	$ 18.86
$24.23-$30.66	216.5	9.3	$ 24.98
$30.70-$87.90	208.8	8.1	$ 47.57
Total	**768.5**	**6.8**	**$ 25.33**

	Exercisable options	
Range of exercise prices	**Number of shares (in millions)**	**Weighted average exercise price**
$0.01-$17.40	174.0	$ 5.97
$17.42-$24.20	35.5	$ 18.75
$24.23-$30.66	4.6	$ 26.98
$30.70-$87.90	16.8	$ 46.10
Total	**230.9**	**$ 11.27**

These options will expire if not exercised at specific dates through December 2011. Option exercise prices for options exercised during the three-year period ended December 29, 2001 ranged from $0.01 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. Approximately 67,000 of our 83,400 employees were participating in the plan as of December 29, 2001. Of the 944 million shares authorized to be issued under the plan, 126.7 million shares remained available for issuance at December 29, 2001. Employees purchased 13.0 million shares in 2001 (8.9 million in 2000 and 10.9 million in 1999) for $351 million ($305 million in 2000 and $241 million in 1999).

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 is required by SFAS No. 123 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 2001, 2000 and 1999 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	**2001**	**2000**	**1999**
Expected life (in years)	6.0	6.5	6.5
Risk-free interest rate	4.9%	6.2%	5.2%
Volatility	.47	.42	.38
Dividend yield	.3%	.1%	.2%

Stock Participation Plan shares	**2001**	**2000**	**1999**
Expected life (in years)	.5	.5	.5
Risk-free interest rate	4.1%	6.1%	4.9%
Volatility	.54	.66	.45
Dividend yield	.3%	.1%	.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 2001 was $12.62 ($28.27 in 2000 and $14.77 in 1999). The weighted average estimated fair value of shares granted under the Stock Participation Plan during 2001 was $8.97 ($19.60 in 2000 and $9.90 in 1999).

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)	**2001**	**2000**	**1999**
Net income	$ 254	$ 9,699	$ 6,860
Basic earnings per share	$ .04	$ 1.45	$ 1.03
Diluted earnings per share	$ .04	$ 1.40	$ .99

Retirement plans > The company provides tax-qualified profit-sharing retirement plans (the "Qualified Plans") for the benefit of eligible employees, former employees and retirees in the U.S. and Puerto Rico and certain other countries. The plans are designed to provide employees with an accumulation of funds for retirement on a tax-deferred basis and provide for annual discretionary employer contributions 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 $190 million for the Qualified Plans and the Non-Qualified Plan in 2001 ($362 million in 2000 and $294 million in 1999). The company expects to fund approximately $250 million for the 2001 contribution to the Qualified Plans and to allocate approximately $10 million for the Non-Qualified Plan, including the utilization of amounts expensed in prior years. A remaining accrual of approximately $47 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 and retirees 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 other countries. The company's funding policy for non-U.S. defined-benefit pension plans is consistent with the local requirements in each country.

The company provides certain postretirement 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.

The defined-benefit pension plans and the postretirement benefits had no material impact on the company's financial statements for the periods presented. The related unrecognized actuarial gains or losses and unrecognized prior service costs were not material to the company's balance sheet at December 29, 2001 or December 30, 2000.

Acquisitions

All of the company's acquisitions have been accounted for using the purchase method of accounting. Consideration includes the cash paid and the value of any stock issued and options assumed, less any cash acquired, and excludes contingent employee compensation payable in cash and any debt assumed. As of July 2000, the company began to account for the intrinsic value of stock options assumed related to future services as unearned compensation within stockholders' equity (see "Acquisition-related unearned stock compensation").

2001 > In March 2001, the company acquired Xircom, Inc. for total consideration of $517 million, including net cash paid and options assumed. Xircom is a supplier of PC cards and other products used to connect mobile computing devices to corporate networks and the Internet.

In April 2001, the company acquired VxTel Inc. In addition to the $381 million of consideration paid upon acquisition, payment of approximately $110 million is contingent upon the continued employment of certain employees. VxTel is a semiconductor company that has developed Voice over Packet (VoP) products that deliver high-quality voice and data communications over next-generation optical networks.

In April 2001, the company acquired Cognet, Inc. in exchange for cash and 3.6 million unregistered shares of Intel common stock, of which approximately 1.4 million shares are contingent upon the continued employment of the founding stockholders. An additional 900,000 registered shares are issuable to certain employees contingent upon meeting certain performance criteria and are not included in purchase consideration. In addition to the total common stock and cash consideration of $156 million, payment of approximately $60 million in cash compensation is contingent upon continued employment of certain employees and meeting certain performance criteria. Cognet is a developer of components that process electrical signals within optical modules after those signals have been converted from light waves. Cognet has developed electronic components for use in 10-Gigabit Ethernet modules.

In May 2001, the company acquired LightLogic, Inc. in exchange for 14.2 million shares of Intel common stock. Approximately 1.9 million of these shares are contingent upon the continued employment of certain employees. LightLogic develops highly integrated opto-electronic components and subsystems for high-speed fiber-optic telecommunications equipment.

2000 > 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 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, of which approximately 1.2 million shares are contingent upon the continued employment of certain employees. 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. Ziatech designs and markets a full range of Intel® architecture-based circuit boards, hardware platforms and development systems.

1999 > 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. (See "Contingencies" for a discussion of class-action litigation relating to Intel's acquisition of DSP Communications.)

These purchase transactions are further described below:

(In millions)	Consideration	Purchased in-process research & development	Goodwill	Identified intangibles	Form of consideration
2001					
Xircom	$ 517	$ 53	$ 320	$ 176	Cash and options assumed
VxTel	$ 381	$ 68	$ 277	$ —	Cash and options assumed
Cognet	$ 156	$ 9	$ 93	$ 20	Cash, common stock and options assumed
LightLogic	$ 409	$ 46	$ 295	$ 9	Common stock and options assumed
2000					
GIGA	$ 1,247	$ 52	$ 1,040	$ 139	Cash
Basis	$ 453	$ 21	$ 349	$ 123	Cash and options assumed
Trillium	$ 277	$ 8	$ 125	$ 104	Common stock, cash and options assumed
Ziatech	$ 222	$ 18	$ 147	$ 38	Cash and options assumed
1999					
Dialogic	$ 732	$ 83	$ 403	$ 211	Cash and options assumed
Level One	$ 2,137	$ 231	$ 1,626	$ 373	Common stock and options assumed
NetBoost	$ 215	$ 10	$ 201	$ —	Cash and options assumed
IPivot	$ 496	$ —	$ 479	$ 21	Cash and options assumed
DSP	$ 1,599	$ 59	$ 1,259	$ 200	Cash and options assumed

In addition to the transactions described above, Intel purchased other businesses in seven smaller transactions in 2001 (thirteen in 2000 and seven in 1999). The 2001 transactions were in exchange for total consideration of $228 million, $73 million in cash and $147 million representing 3.2 million unregistered shares of Intel common stock. Of these shares, 1.9 million shares are contingent upon the continued employment of certain employees. The remaining consideration of $8 million related to the value of assumed options. A total of $153 million was allocated to goodwill for these transactions in 2001, while $71 million was allocated to deferred stock compensation and $22 million to purchased in-process research and development (IPR&D). Consideration for the smaller transactions in 2000 was $513 million, with $477 million allocated to goodwill, $5 million to intangibles and $10 million to IPR&D. In 1999, consideration for these transactions was $468 million, with $363 million allocated to goodwill, $44 million to intangibles and $9 million to IPR&D.

For 2001, $198 million was allocated to IPR&D and expensed upon acquisition of the above companies ($109 million for 2000 and $392 million for 1999), 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, relevant market sizes and industry trends. For 2001, the company adopted the recommendations of an accounting industry task force, and determined a discount rate for each project based on the relative risks inherent in the project's development horizon, the estimated costs of development, and the level of technological change in the project and the industry, among other factors. This change in methodology did not have a material impact on the valuation of the IPR&D. Intel believes that 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.

The consolidated financial statements include the operating results of acquired businesses from the dates of acquisition. The operating results of all of the significant companies acquired have been included in the Intel Communications Group operating segment, except for the results of DSP Communications, which have been included in the Wireless Communications and Computing Group operating segment.

The unaudited pro forma information below assumes that companies acquired in 2001 and 2000 had been acquired at the beginning of 2000, 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 2000.

(In millions, except per share amounts-unaudited)	2001	2000
Net revenues	$ 26,616	$ 34,320
Net income	$ 1,368	$ 9,982
Basic earnings per common share	$ .20	$ 1.48
Diluted earnings per common share	$ .20	$ 1.42

Acquisition-related unearned stock compensation

During 2001, the company recorded acquisition-related purchase consideration of $255 million ($123 million in 2000) as unearned stock-based compensation, in accordance with FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." This amount represents the portion of the purchase consideration related to shares issued contingent upon the continued employment of certain employee stockholders, and in some cases on the completion of certain milestones. The unearned stock-based compensation also includes the intrinsic value of stock options assumed that is earned as the employees provide future services. The compensation is being recognized over the period earned, and the expense is included in the amortization of goodwill and other acquisition-related intangibles and costs. A total of $174 million of expense was recognized for 2001, and $26 million 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 was approximately $54 million, and as of December 29, 2001, no material balance remained.

Commitments

The company leases a portion of its capital equipment and certain of its facilities under operating leases that expire at various dates through 2026. Rental expense was $182 million in 2001, $123 million in 2000 and $71 million in 1999. Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 2002—$110 million; 2003—$91 million; 2004—$70 million; 2005—$61 million; 2006—$60 million; 2007 and beyond—$218 million. Commitments for construction or purchase of property, plant and equipment approximated $1.9 billion at December 29, 2001.

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 and approximately $350 million for alleged state law violations, plus prejudgment interest. Intel has counterclaimed, alleging infringement of seven Intel patents, breach of contract and misappropriation of trade secrets. In March 2000, the District Court granted Intel's motion for summary judgment on Intergraph's federal antitrust claims, and in June 2001, the United States Court of Appeals for the Federal Circuit sustained the District Court's ruling. Intergraph's patent and state law claims remain at issue in the trial court. The company disputes the plaintiff's claims and intends to defend the lawsuit vigorously.

In August 2001, Intergraph filed a second suit in the U.S. District Court for the Eastern District of Texas, alleging that the Intel® Itanium™ processor infringes two Intergraph microprocessor-related patents, and seeking an injunction and unspecified damages. Intergraph has withdrawn its request for damages and, consequently, Intergraph's sole requested remedy is an injunction that would prohibit Intel from making, using or selling Itanium processors. If granted, such an injunction would significantly limit Intel's ability to succeed in the enterprise server market segment for 64-bit processors. The Texas suit is currently scheduled for trial before Judge Ward, sitting without a jury, in July 2002. The company disputes the plaintiff's claims and intends to defend the lawsuit vigorously.

On May 1, 2000, various plaintiffs filed a class-action lawsuit in the United States District Court for the Northern District of California, alleging violations of the Securities Exchange Act of 1934 and U.S. Securities and Exchange Commission Rule 14d-10 in connection with Intel's acquisition of DSP Communications. The complaint alleges that Intel and CWC (Intel's wholly owned subsidiary at the time) agreed to pay certain DSP Communications insiders additional consideration of $15.6 million not offered or paid to other stockholders. The alleged purpose of this payment to the insiders was to obtain DSP Communications insiders' endorsement of Intel's tender offer in violation of the anti-discrimination provision of Section 14(d)(7) and Rule 14d-10. The plaintiffs are seeking unspecified damages for the class, and unspecified costs and expenses. The suit is currently scheduled for trial in July 2002; however, the presiding judge has retired and the case has been reassigned. The company disputes the plaintiffs' claims and intends to defend the lawsuit vigorously.

On September 10, 2001, VIA Technologies, Inc. and Centaur Technology, Inc. sued Intel in the United States District Court for the Western District of Texas, alleging that the Intel® Pentium® 4 processor infringes a VIA Technologies microprocessor-related patent. The suit seeks injunctive relief and damages in an unspecified amount. The company disputes the plaintiffs' claims and intends to defend the lawsuit vigorously.

In September, October and November 2001, various plaintiffs filed lawsuits against Intel alleging violations of the Securities Exchange Act of 1934. The five class-action complaints allege that purchasers of Intel stock between July 19, 2000 and September 29, 2000 were misled by false and misleading statements by Intel and certain of its officers and directors concerning the company's business and financial condition. In addition, stockholder derivative complaints have been filed in California Superior Court and Delaware Chancery Court against the company's directors and certain officers, alleging that they have mismanaged the company and otherwise breached their fiduciary obligations to the company. All complaints seek unspecified damages. The company disputes the plaintiffs' claims and intends to defend the lawsuits vigorously.

The company is 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 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 computing and communications products at various levels of integration. The company is organized into four product-line operating segments: the Intel Architecture business, which is comprised of the Desktop Platforms Group, the Mobile Platforms Group and the Enterprise Platforms Group; the Intel Communications Group; the Wireless Communications and Computing Group; and the New Business Group. Intel is reporting three operating segments for 2001. The New Business Group is not a reportable segment under the segment reporting standard, SFAS No. 131.

For the periods presented, the Chief Operating Decision Maker (CODM), as defined by SFAS No. 131, was the Chief Executive Officer (CEO), who is Craig R. Barrett. The CODM allocates resources to and assesses the performance of each operating segment using information about their revenues and operating profits before interest and taxes. In January 2002, the company announced the promotion of Paul S. Otellini, who was Executive Vice President and General Manager of the Intel Architecture Group, to President and Chief Operating Officer (COO) of Intel. Beginning in 2002, the company's Executive Office will consist of both the CEO and COO, who will have joint responsibility as the CODM.

The Intel Architecture operating segment's products include microprocessors and related board-level products and chipsets based on the P6 microarchitecture (including the Intel® Pentium® III, Celeron® and Pentium® III Xeon™ processors), as well as the Pentium 4 and Intel® Xeon™ processors based on the new Intel® NetBurst™ microarchitecture. Sales of microprocessors and related products based on the P6 microarchitecture comprised a majority of the company's 2001 revenues and a substantial majority of the company's 2001 gross margin. For the same period, sales of products based on the Intel NetBurst microarchitecture, including Pentium 4 and Intel Xeon processors and related products, were a significant and rapidly increasing portion of our consolidated net revenues and gross margin. For 2000, sales of microprocessors and related products based on the P6 microarchitecture comprised a substantial majority of our consolidated net revenues and gross margin. The Intel Communications Group's products include Ethernet connectivity products, network processing components, modular network infrastructure components and embedded microcontrollers. The Wireless Communications and Computing Group's products include flash memory, application processors and cellular baseband chipsets for cellular handsets and handheld devices. The New Business Group provides e-Business data center services. Intel's products in all operating segments 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 company has sales and marketing, manufacturing, finance and administration groups. Expenses of these groups are allocated to the operating segments and are included in the operating results reported below.

The "all other" category includes acquisition-related costs, including amortization of goodwill and identified intangibles, in-process research and development, and write-offs of acquisition-related goodwill and intangibles, as well as the revenues and earnings or losses of the New Business Group. In addition, 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. Prior to 2001, the majority of the profit-dependent bonus expenses were reported at the corporate level. For 2001, a higher percentage of these expenses has been allocated to the operating segments. Information for prior periods has been restated to conform to the 2001 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 CODM evaluate operating segments 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 29, 2001 is as follows:

(In millions)	**2001**	**2000**	**1999**
Intel Architecture Business			
Revenues	$ 21,446	$ 27,301	$ 25,459
Operating profit	$ 6,252	$ 12,511	$ 11,131
Intel Communications Group			
Revenues	$ 2,580	$ 3,483	$ 2,380
Operating profit (loss)	$ (735)	$ 319	$ 437
Wireless Communications and Computing Group			
Revenues	$ 2,232	$ 2,669	$ 1,264
Operating profit (loss)	$ (256)	$ 608	$ (96)
All other			
Revenues	$ 281	$ 273	$ 286
Operating loss	$ (3,005)	$ (3,043)	$ (1,705)
Total			
Revenues	$ 26,539	$ 33,726	$ 29,389
Operating profit	$ 2,256	$ 10,395	$ 9,767

In 2001, one customer accounted for approximately 14% of the company's revenues. In both 2000 and 1999, two customers each accounted for 13% of the company's revenues. A substantial majority of the sales to these customers were Intel Architecture products.

Geographic revenue information for the three years ended December 29, 2001 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)	2001	2000	1999
United States	$ 9,382	$ 13,912	$ 12,740
Asia-Pacific	8,308	8,674	6,704
Europe	6,500	8,066	7,798
Japan	2,349	3,074	2,147
Total revenues	**$ 26,539**	**$ 33,726**	**$ 29,389**

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

(In millions)	2001	2000
United States	$ 14,484	$ 11,108
Ireland	1,436	1,545
Other countries	2,201	2,360
Total property, plant and equipment, net	**$ 18,121**	**$ 15,013**

Supplemental information (unaudited)

Quarterly information for the two years ended December 29, 2001 is presented in "Financial information by quarter (unaudited)" on page 37.

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 29, 2001 and December 30, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2001. 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 29, 2001 and December 30, 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

San Jose, California
January 14, 2002

Financial information by quarter (unaudited)

(In millions-except per share amounts) 2001 for quarter ended	December 29	September 29	June 30	March 31
Net revenues	$ 6,983	$ 6,545	$ 6,334	$ 6,677
Cost of sales	$ 3,402	$ 3,553	$ 3,307	$ 3,225
Amortization of goodwill and other acquisition-related intangibles and costs	$ 550	$ 609	$ 594	$ 585
Purchased in-process research and development	$ —	$ —	123	75
Net income	504	106	196	485
Basic earnings per share	$ .08	$ .02	$ .03	$ .07
Diluted earnings per share	$ .07	$ .02	$ .03	$ .07
Dividends per share				
Declared	$ —	$ .040	$ —	$ .040
Paid	$ .020	$ .020	$ .020	$ .020
Market price range common stock †				
High	$ 34.61	$ 32.11	$ 32.49	$ 37.81
Low	$ 19.54	$ 19.30	$ 22.63	$ 24.63

(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				
Declared	$ —	$ .020	$ .020	$ .030
Paid	$ .020	$ .020	$ .015	$ .015
Market price range common stock †				
High	$ 46.69	$ 74.88	$ 69.50	$ 72.03
Low	$ 30.06	$ 41.56	$ 53.03	$ 39.38

† *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 29, 2001, there were approximately 260,066 registered holders of common stock. All stock prices are closing prices per The Nasdaq Stock Market, as adjusted for stock splits.*

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EXHIBIT 13

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Exhibit 21

INTEL CORPORATION
SUBSIDIARIES (All 100% Owned)

Subsidiaries of the Registrant	State or Other Jurisdiction of Incorporation
Components Intel de Costa Rica, S.A.	Costa Rica
Dialogic Corporation	New Jersey, USA
DSP Communications, Inc.	Delaware, USA
DSPC Telecommunications Limited	Israel
GIGA Denmark Aps	Denmark
Intel Americas, Inc.	Delaware, USA
Intel Asia Finance Limited	Cayman Islands
Intel Commodities Limited	Cayman Islands
Intel Corporation (U.K.) Limited	England and Wales
Intel Electronics Finance Limited	Cayman Islands
Intel Electronics Limited	Israel
Intel International	California, USA
Intel International B.V.	Netherlands
Intel Ireland Limited	Cayman Islands
Intel Kabushiki Kaisha	Japan
Intel Massachusetts, Inc.	Delaware, USA
Intel Online Services, Inc.	Delaware, USA
Intel Overseas Corporation	California, USA
Intel Overseas Funding Corporation	Cayman Islands
Intel Products (M) Sdn. Bhd.	Malaysia
Intel Puerto Rico Limited	Cayman Islands
Intel Semiconductor Limited	Delaware, USA
Intel Technology Finance Limited	Cayman Islands
Intel Technology Phils., Inc.	Philippines
Intel Technology Sdn. Berhad	Malaysia
Level One Communications, Inc.	Delaware, USA
Mission College Investments Limited	Cayman Islands
Xircom, Incorporated	California, USA

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Exhibit 21

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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 14, 2002, included in the 2001 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, 333-57366, 333-58238, 333-58288, 333-59518, 333-59522, 333-59530, and 333-63330; and Form S-3 Nos. 33-20117, 33-54220, 33-58964, and 33-56107) of our report dated January 14, 2002, 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.

/s/ Ernst & Young LLP

San Jose, California
March 8, 2002

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Exhibit 23