

INTEL CORP
Form 10-K
February 26, 2007

Table of Contents

**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 30, 2006.

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

For the transition period from _____ to _____.

Commission File Number 000-06217

INTEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-1672743

(I.R.S. Employer Identification No.)

**2200 Mission College Boulevard, Santa Clara,
California**

(Address of principal executive offices)

95054-1549

(Zip Code)

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

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

Title of each class

Name of each exchange on which registered

Common stock, \$0.001 par value

The NASDAQ Global Select Market*

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 (§229.405 of this chapter) 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2006, based upon the closing price of the common stock as reported by The NASDAQ Global Select Market* on such date, was approximately

\$106.0 billion

5,767 million shares of common stock outstanding as of February 16, 2007

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the registrant's Proxy Statement relating to its 2007 Annual Stockholders Meeting, to be filed subsequently Part III.
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INTEL CORPORATION

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 30, 2006

INDEX

	Page
<u>PART I</u>	
<u>Item 1.</u> Business	1
<u>Item 1A.</u> Risk Factors	16
<u>Item 1B.</u> Unresolved Staff Comments	20
<u>Item 2.</u> Properties	20
<u>Item 3.</u> Legal Proceedings	21
<u>Item 4.</u> Submission of Matters to a Vote of Security Holders	22
<u>PART II</u>	
<u>Item 5.</u> Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	23
<u>Item 6.</u> Selected Financial Data	25
<u>Item 7.</u> Management's Discussion and Analysis of Financial Condition and Results of Operations	26
<u>Item 7A.</u> Quantitative and Qualitative Disclosures About Market Risk	46
<u>Item 8.</u> Financial Statements and Supplementary Data	48
<u>Item 9.</u> Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	92
<u>Item 9A.</u> Controls and Procedures	92
<u>Item 9B.</u> Other Information	93
<u>PART III</u>	
<u>Item 10.</u> Directors, Executive Officers and Corporate Governance	94
<u>Item 11.</u> Executive Compensation	94
<u>Item 12.</u> Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	94
<u>Item 13.</u> Certain Relationships and Related Transactions, and Director Independence	94
<u>Item 14.</u> Principal Accounting Fees and Services	94
<u>PART IV</u>	
<u>Item 15.</u> Exhibits and Financial Statement Schedules	95

Table of Contents

PART I

ITEM 1. BUSINESS

Industry

We are the world's largest semiconductor chip maker, based on revenue. We develop advanced integrated digital technology platforms and components, primarily integrated circuits, for the computing and communications industries. Integrated circuits are semiconductor chips etched with interconnected electronic switches. Our goal is to be the preeminent provider of semiconductor chips and platform solutions to the worldwide digital economy. We offer products at various levels of integration, allowing our customers flexibility to create advanced computing and communications systems and products.

We believe that end users, original equipment manufacturers, third-party vendors, and service providers of computing and communications systems and devices want platform products. We define a platform as a collection of technologies that are designed to work together to provide a better end-user solution than if the ingredients were used separately. Our platforms consist of various products based on: standards and initiatives; hardware and software that may include technologies such as Hyper-Threading Technology (HT Technology), Intel® Virtualization Technology (Intel® VT), and Intel® Active Management Technology (Intel® AMT); and services. In developing our platforms, we may include ingredients sold by other companies.

Intel's products include chips, boards, and other semiconductor products that are the building blocks integral to computers, servers, handheld devices, and networking and communications products. Our component-level products consist of integrated circuits used to process information, including microprocessors, chipsets, and flash memory.

We also believe that users of computing and communications systems and devices want improved overall performance and/or improved energy-efficient performance. Improved overall performance can include faster processing performance and other improved capabilities such as multithreading and multitasking. Performance can also be improved through enhanced connectivity, security, manageability, utilization, reliability, ease of use, and interoperability among devices. Improved energy-efficient performance involves balancing the addition of these types of improved performance factors with the power consumption of the platform. Lower power consumption may reduce system heat output, thereby providing power savings, and reducing the total cost of ownership for the end user.

Our customers include:

- original equipment manufacturers (OEMs) and original design manufacturers (ODMs) who make computer systems, handheld devices, and telecommunications and networking communications equipment;
- PC and network communications products users (including individuals, large and small businesses, and service providers) who buy PC components and board-level products, as well as our networking, communications, and storage products, through distributor, reseller, retail, and OEM channels throughout the world; and
- other manufacturers, including makers of a wide range of industrial and communications equipment.

We were incorporated in California in 1968 and reincorporated in Delaware in 1989. Our Internet address is www.intel.com. On this Web site, we publish voluntary reports, which are updated annually, outlining our performance with respect to corporate responsibility, including environmental, health, and safety compliance (these voluntary reports are not incorporated by reference into this Form 10-K). On our Investor Relations Web site, located at www.intc.com, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the U.S. Securities and Exchange Commission (SEC): our annual report on Form 10-K, our quarterly

reports on Form 10-Q, our current reports on Form 8-K, our proxy statement related to our annual stockholders meeting, and any amendments to those reports or statements. All such filings are available on our Investor Relations Web site free of charge. The content on any Web site referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

Products

Our products currently include microprocessors; chipsets; motherboards; flash memory; wired and wireless connectivity products; communications infrastructure components, including network processors; and products for networked storage.

Table of Contents

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. The following aspects of microprocessor design impact overall platform performance:

Multi-core processors. Multi-core processors contain two or more processor cores, which enable improved multitasking and energy-efficient performance. Our dual-core microprocessors include the Intel® Core™2 Duo, Intel® Core™2 Extreme, Intel® Core™ Duo, Intel® Pentium® D, Dual-Core Intel® Xeon® processor family, and Dual-Core Intel® Itanium® processors. Our quad-core microprocessors include the Quad-Core Intel® Xeon®, Intel® Core™2 Quad, and Intel® Core™2 Extreme quad-core processors.

Microarchitecture design of the CPU. Microprocessor design architectures are commonly categorized by the number of bits (the smallest unit of information processed on a computer) that the processor can handle at one time. Currently, microprocessors are designed to process 32 bits or 64 bits of information at one time. Microprocessors with 64-bit processing capability can address significantly more memory than 32-bit microprocessors. The Intel® Core™, Intel® Pentium®, Intel® Celeron®, and Intel® Xeon® branded products are based on our 32-bit architecture (IA-32), while Intel® Itanium® branded products are based on our 64-bit architecture (IA-64). Another way to provide 64-bit processing capability is for processors based on 32-bit architecture to have 64-bit address extensions. The majority of our microprocessors are equipped with Intel® 64 architecture, which provides 64-bit address extensions, supporting both 32-bit and 64-bit software applications.

Clock speed. Clock speed is the rate at which a microprocessor's internal logic operates and is a measure of a microprocessor's performance. Clock speed 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.

Speed of memory access. Cache is a memory that can be located directly on the microprocessor, permitting quicker access to frequently used data and instructions. Some of our microprocessors have additional levels of cache—second-level (L2) cache and third-level (L3) cache—to enable higher levels of performance.

Speed of communication between the CPU and the chipset. A bus carries data between parts of the system. A faster bus allows for faster data transfer into and out of the processor, enabling increased performance.

Amount and type of memory storage. Memory storage is measured in bytes (8 bits), 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).

In addition to the performance factors discussed above, our Intel® Core™ microarchitecture provides other enhanced features that can increase performance or energy efficiency, including the following:

Feature	Performance Enhancement
Intel® Advanced Smart Cache	Allows one core to utilize the entire cache
Intel® Intelligent Power Capability	Optimizes energy by managing the runtime power consumption of each core
Intel® Wide Dynamic Execution	Enables each core to complete up to four full instructions simultaneously
Intel® Smart Memory Access	Optimizes the use of available data bandwidth from the memory subsystem and hides memory latency
Intel® Advanced Digital Media Boost	Increases the execution speed for instructions used widely in multimedia and graphics applications

Other microprocessor capabilities can also enhance system performance or user experience. For example, we offer microprocessors with Intel's HT Technology, which allows each processor core to process two threads of instructions

simultaneously. This capability can provide benefits in one of two ways: it helps to run multithreaded software, which is designed to execute different parts of a program simultaneously, or it helps to run multiple software programs simultaneously in a multitasking environment. Other technologies include Intel AMT, which helps information technology managers diagnose, fix, and protect enabled systems that are plugged in and connected to a network, even if a computer is turned off or has a failed hard drive or operating system; and Intel VT, which provides increased security and management capabilities through the use of virtual partitions that isolate user environments, for example, by enabling a platform to run multiple operating systems and allowing for the system to isolate viruses from applications within other partitions. To take advantage of these features, a computer system must have a microprocessor that supports: a chipset and BIOS (basic input/output system) that use, and software that is optimized for, the technology. Performance also will vary depending on the system hardware and software used.

Microprocessors are also used in embedded designs such as industrial equipment, point-of-sale systems, panel PCs, automotive information/entertainment systems, and medical equipment.

Table of Contents

Our microprocessor sales generally have followed a seasonal trend; however, there can be no assurance that this trend will continue. Historically, our sales of microprocessors have been higher in the second half of the year than in the first half of the year. Consumer purchases of PCs have been higher in the second half of the year, primarily due to back-to-school and holiday demand. In addition, purchases from businesses have tended to be higher in the second half of the year.

The *chipset* operates as the PC's nervous system, sending data between the microprocessor and input, display, and storage devices, such as the keyboard, mouse, monitor, hard drive, and CD or DVD drive. Chipsets perform essential logic functions, such as balancing the performance of the system and removing bottlenecks. Chipsets also extend the graphics, audio, video, and other capabilities of many systems based on our microprocessors. Finally, chipsets control the access between the CPU and main memory. We offer chipsets compatible with a variety of industry-accepted bus specifications, such as the Accelerated Graphics Port (AGP) specification, the Peripheral Components Interconnect (PCI) local bus specification, and the PCI Express* local bus specification. PCI Express significantly increases the data transfer rate of the original PCI specification, thereby improving the graphics and input/output bandwidth and enabling an improved multimedia experience. We believe that our customers also want memory architecture alternatives, and as a result, we offer chipsets supporting double data rate (DDR) and DDR2 (second-generation, faster DDR memory), dynamic random access memory (DRAM), synchronous DRAM (SDRAM), and fully buffered dual in-line memory module (FB-DIMM).

A *motherboard* is the principal board within a system. A motherboard has connectors for attaching devices to the bus, and typically contains the CPU, memory, and the chipset. We currently offer motherboard products designed for our desktop, server, and workstation platforms, thereby providing a more complete range of solutions for our customers looking for Intel®-based solutions. We provide our OEM customers with the flexibility to make purchases at the board or at the component level.

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, and provides faster access to data than traditional hard drives. Flash memory has no moving parts, unlike devices such as rapidly spinning hard drives, allowing flash memory to be more tolerant of bumps and shocks. A common measure of flash memory performance is the density of the product. Density refers to the amount of information the product is capable of storing. Flash memory is based on either NOR or NAND architecture. NOR flash memory, with its fast access or read capabilities, has traditionally been used to store executable code. We offer NOR flash memory products such as Intel StrataFlash® wireless memory for mobile phone designs. In addition to product offerings for cellular customers, we offer NOR flash memory products that meet the needs of other market segments, such as the embedded market segment. The embedded market segment includes set-top boxes, networking products, DVD players, DSL and cable modems, and other devices. NAND flash memory is slower in reading data but faster in writing data. We offer NAND flash memory products that are designed primarily for memory cards, digital audio players, and cellular phones. Our NAND flash memory products are manufactured by IM Flash Technologies, LLC (IMFT), a company we formed with Micron Technology, Inc. in January 2006. For further discussion of our equity investment in IMFT, see Note 17: Venture in Part II, Item 8 of this Form 10-K.

We offer *wired and wireless connectivity products* based on industry-standard technologies used to translate and transmit data in packets across networks. We offer products for the traditional local area network (LAN) environment, as well as for the wireless LAN (WLAN), metropolitan area network (MAN), and networked storage market segments. For the LAN and MAN market segments, we offer products at multiple levels of integration to provide a low-cost solution with increased speed and signal transmission distance (commonly referred to as reach). Gigabit Ethernet networks allow the transmission of one billion individual bits of information per second, and 10-Gigabit Ethernet networks transmit 10 billion bits of information per second. By contrast, Fast Ethernet networks transmit 100 million bits of information per second (Mbps, or megabits per second). Our wireless connectivity products are based on either the 802.11 or 802.16 industry standard. The 802.11 communication standard refers to a family of

specifications commonly known as WiFi technology. These specifications describe the bandwidth and frequency of the over-the-air interface between a wireless client and a base station, or between two wireless clients. We also have developed and are developing wireless connectivity products for both mobile and fixed networks based on the 802.16 industry standard, commonly known as WiMAX, which is short for Worldwide Interoperability for Microwave Access. WiMAX is a standards-based wireless technology providing high-speed, last-mile broadband connectivity that makes it possible to wirelessly connect end users to networks, as well as networks to other networks, up to several miles apart.

Communications infrastructure products include network processors, communications boards, and optical transponders that are basic building blocks for modular communications platforms. These products include advanced, programmable processors used in networking equipment to rapidly manage and direct data moving across the Internet and corporate networks. Our modular communications platforms are based on telecommunication industry standards, such as Advanced Telecom Computing Architecture (AdvancedTCA*) systems and carrier-grade servers, allowing for communications and media services to be managed independently from the network itself. Unlike proprietary systems platforms, modular communications platforms are standards-based solutions that offer network infrastructure builders flexible, low-cost, low power consumption options for designing their networks. We also offer embedded processors that can be used for modular communications platform applications.

Table of Contents

Our network processor products offer low power consumption and high-performance processing for a wide range of Internet devices.

We offer *networked storage* products that allow storage resources to be added to either of the two most prevalent types of networking technology: Ethernet or Fibre Channel.

We also have entered into agreements to manufacture and assemble and test application and cellular baseband processors and other products related to product lines that were divested in 2006. These arrangements are expected to continue during a transition period until the acquiring companies arrange for other manufacturing resources. For further discussion of our divestitures, see Note 14: Acquisitions and Divestitures in Part II, Item 8 of this Form 10-K.

Our operating segments as of December 30, 2006 included the Digital Enterprise Group, Mobility Group, Flash Memory Group, Digital Home Group, Digital Health Group, and Channel Platforms Group. Each operating segment's major products and platforms, including some key introductions, are discussed below. For a discussion of our strategy, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Form 10-K.

Digital Enterprise Group

The Digital Enterprise Group (DEG)'s products are incorporated into desktop computers, enterprise computing servers, workstations, and the infrastructure for the Internet. DEG's products include microprocessors and related chipsets and motherboards designed for the desktop and enterprise computing market segments; communications infrastructure components such as network processors, communications boards, and embedded processors; wired connectivity devices; and products for network and server storage.

Net revenue for the DEG operating segment made up 56% of our consolidated net revenue in 2006 (65% in 2005 and 72% in 2004). Revenue from sales of microprocessors within the DEG operating segment represented 41% of consolidated net revenue in 2006 (50% in 2005 and 57% in 2004).

Desktop Market Segment

We develop platforms based on our microprocessors, chipsets, and motherboard products that are optimized for use in the desktop market segment. For high-end desktop platforms, we offer the Intel Core 2 Quad processor, the Intel Core 2 Duo processor, the Intel Pentium D processor, and the Intel® Pentium® 4 processor supporting HT Technology. For lower price-point desktop platforms, we offer the Intel® Celeron® D and Intel Celeron processors. We also offer chipsets designed and optimized for use in desktop platforms.

In 2006 and early 2007, we introduced the following products:

Processor	Cores	Clock Speed	Front Side Bus	Cache
Intel® Pentium® 4 processors 631, 641, 651, and 661	1	Up to 3.60 GHz	800 MHz	2 MB of L2
Intel® Core™ Duo processor	2	Up to 2.16 GHz	667 MHz	2 MB of L2
Intel® Core™2 Duo processor	2	Up to 2.66 GHz	1066 MHz	Up to 4 MB of shared L2
Intel® Core™2 Quad processor	4	2.4 GHz	1066 MHz	

Our Intel Core 2 Duo and Intel Core 2 Quad processors are based on the new Intel Core microarchitecture. Microprocessors based on the Intel Core microarchitecture are designed for energy-efficient performance and are manufactured using our 65-nanometer process technology. The Intel Core Duo and Pentium 4 processors are based on the Intel NetBurst® microarchitecture, an earlier generation of Intel microarchitecture.

In June 2006, we launched the Intel® 965 Express Chipset family, which is designed to increase overall system performance through the optimization of available bandwidth and reduction of memory latency. This chipset is designed for desktop PC platforms and is also available as part of our Intel® Viiv™ and Intel® vPro™ technology-based platforms.

In September 2006, we introduced Intel vPro technology-based platforms for business desktop PCs. Intel vPro technology-based platforms are designed to provide increased security and manageability, energy-efficient performance, and lower cost of ownership. Platforms based on Intel vPro technology include the Intel Core 2 Duo processor, the Intel® Q965 Express Chipset, and the Intel® 82566DM Gigabit Network Connection. Intel vPro technology also features Intel VT and Intel AMT.

Table of Contents*Enterprise Market Segment*

We develop platforms based on our microprocessors, chipsets, and motherboard products that are optimized for use in the enterprise market segment, which includes entry-level to high-end servers and workstations. Servers, which often have multiple microprocessors working together, manage large amounts of data, direct traffic, perform complex transactions, and control central functions in local and wide area networks and on the Internet. Workstations typically offer higher performance than standard desktop PCs, and are used for applications such as engineering design, digital content creation, and high-performance computing.

Our Intel Xeon processor family of products supports a range of entry-level to high-end technical and commercial computing applications. In comparison to our Intel Xeon processor family, our Intel Itanium processor family, which is based on IA-64 and includes the Intel® Itanium® 2 processor, generally supports an even higher level of reliability and computing performance for data processing, the handling of high transaction volumes and other compute-intensive applications for enterprise-class servers, as well as supercomputing solutions.

In 2006 and early 2007, we introduced the following products:

Processor	Cores	Clock Speed	Front Side Bus	Cache
Dual-Core Intel® Xeon® processors Low Voltage and Ultra Low Voltage	2	Up to 2.0 GHz	667 MHz	2 MB of L2
Dual-Core Intel® Xeon® processor 5000 series	2	Up to 3.73 GHz	667 MHz or 1066 MHz	4 MB of shared L2
Dual-Core Intel® Xeon® processor 5100 series	2	Up to 3.0 GHz	1066 MHz or 1333 MHz	4 MB of shared L2
Dual-Core Intel® Xeon® processor 7100 series	2	Up to 3.5 GHz	667 MHz or 800 MHz	Up to 16 MB of shared L3
Dual-Core Intel® Xeon® processor 3000 series	2	Up to 2.66 GHz	Up to 1066 MHz	Up to 4 MB of shared L3
Quad-Core Intel® Xeon® processor 5300 series	4	Up to 2.66 GHz	1066 MHz or 1333 MHz	8 MB of shared L2
Quad-Core Intel® Xeon® processor 3200 series	4	Up to 2.4 GHz	1066 MHz	8 MB of shared L2
Dual-Core Intel® Itanium® 2 processor 9000 series	2	Up to 1.6 GHz	400 MHz or 533 MHz	Up to 24 MB of shared L3

Our Intel Xeon processor 5100 series, Intel Xeon processor 3000 series, Quad-Core Intel Xeon processor 5300 series, and Quad-Core Intel Xeon processor 3200 series are based on the new Intel Core microarchitecture and are manufactured using our 65-nanometer process technology. The Intel Xeon processor 7100 series and Intel Xeon processor 5000 series are based on the Intel NetBurst microarchitecture and are manufactured using our 65-nanometer process technology.

In March 2006, we launched the Intel® 5000X Chipset family. This chipset is designed for workstations and supports the Intel Xeon 5000 series and Intel Xeon 5100 series of processors. The Intel 5000X Chipset family supports FB-DIMM memory at 533 MHz and 667 MHz, and dual independent buses at 1066 MHz and 1333 MHz, for faster application response and greater memory capacity for data-intensive applications.

Communications Infrastructure Products

In February 2006, we introduced three new Intel Core Duo processors for embedded market segments. These processors are supported by the mobile Intel® 945GM Express Chipset offered by the Mobility Group. These Intel Core Duo processors run at speeds of up to 2.0 GHz, support a 667-MHz bus, and include 2 MB of L2 cache.

Networked Storage Products

In March 2006, we introduced the Intel® Entry Storage System SS4000-E, an Intel XScale® processor-based platform designed to provide easy-to-use, affordable storage for small and mid-size business environments.

In September 2006, we introduced the Intel® IOP34x family of storage processors designed to provide high-speed input/output (I/O) for both external storage products and embedded systems. Based on the Intel XScale microarchitecture, these processors are designed to improve overall system performance by offloading I/O processing functions from the host CPU.

Table of Contents***Mobility Group***

The Mobility Group's products currently include microprocessors and related chipsets designed for the notebook market segment and wireless connectivity products. In 2006, the Mobility Group's products also included cellular baseband processors and application processors. In the fourth quarter of 2006, we sold certain assets of our communications and application processor business line to Marvell Technology Group, Ltd. The divestiture of these assets included the cellular baseband processor and application processor product lines. These product lines are based on Intel XScale technology and are designed for wireless handheld devices such as handsets, PDAs, and mobile phones. Intel and Marvell entered into an agreement whereby we are providing certain manufacturing and transition services to Marvell for a limited time. For further discussion of our divestitures, see Note 14: Acquisitions and Divestitures in Part II, Item 8 of this Form 10-K.

Net revenue for the Mobility Group operating segment made up 35% of our consolidated net revenue in 2006 (29% in 2005 and 20% in 2004). Revenue from sales of microprocessors within the Mobility Group represented 26% of consolidated net revenue in 2006 (22% in 2005 and 17% in 2004).

We offer mobile computing microprocessors at a variety of price/performance points, allowing our customers to meet the demands of a wide range of notebook PC designs. These notebook designs include transportable notebooks, which provide desktop-like features such as higher performance processors, full-size keyboards, larger screens, and multiple drives; thin-and-light models, including those optimized for wireless networking; and ultra-portable designs. Within the ultra-portable design category, we provide specialized low-voltage processors targeted for the mini-notebook market segment, and ultra-low-voltage processors targeted for the sub-notebook and tablet market segments of notebook PCs weighing less than 3 pounds and measuring 1 inch or less in height. For high-end mobility platforms, we offer the Intel Core 2 Duo, Intel Core Duo, Intel® Core™ Solo, and Intel® Pentium® M processors. For lower price-point mobile platforms, we offer the Intel® Celeron® M and Mobile Intel® Celeron® processors.

In 2006, a substantial majority of the revenue in the Mobility Group operating segment was from sales of products that make up Intel® Centrino® and Intel® Centrino® Duo mobile technology. Intel Centrino mobile technology consists of either the Intel Core Solo and the mobile Intel® 945 Express Chipset, or the Intel Pentium M processor and the mobile Intel® 915 Express Chipset; and an Intel wireless network connection. Intel Centrino mobile technology is designed to provide high performance, improved battery life, small form factor, and wireless connectivity. The Intel Centrino Duo mobile technology platform expands on the capabilities of Intel Centrino mobile technology with improved multitasking performance, power-saving features to further improve battery life, and a more flexible wireless network connection. Intel Centrino Duo mobile technology consists of either the Intel Core 2 Duo or the Intel Core Duo processor together with the mobile Intel 945 Express Chipset and the Intel® PRO/Wireless 3945ABG Network Connection. Intel Centrino Duo and Intel Centrino mobile technology both enable users to take advantage of wireless capabilities at work and at home, with the installation of the appropriate base-station equipment, as well as at thousands of wireless hotspots installed around the world.

In July 2006, we introduced the first mobile processors based on the new Intel Core microarchitecture. Intel Core 2 Duo mobile processors are designed for energy-efficient, 32- and 64-bit mobile computing. Based on our 65-nanometer process technology, these processors run at speeds of up to 2.33 GHz, support a 667-MHz bus, include up to 4 MB of shared L2 cache, and operate at 1.3 volts.

In October 2006, we introduced the Intel® WiMAX Connection 2250, our first dual-mode WiMAX chip, which supports both mobile and fixed networks and is designed for building cost-effective WiMAX modems.

In January 2007, we introduced the Intel® Next-Gen Wireless-N network connection. This product is based on the draft 802.11n WiFi specification and is designed to provide faster performance over a longer range than existing Intel

products.

Flash Memory Group

The Flash Memory Group provides advanced flash memory products for a variety of digital devices. Net revenue for the Flash Memory Group operating segment made up 6% of our consolidated net revenue in 2006 (6% in 2005 and 7% in 2004). In 2006, most of the revenue in the Flash Memory Group was derived from our NOR flash memory products.

Table of Contents

NOR Flash Memory

We develop NOR flash memory products for cellular phones and embedded form factors. We offer a broad range of memory densities, leading-edge packaging technology, and high-performance functionality. Intel StrataFlash wireless memory, designed for mobile phones, allows two bits of data to be stored in each NOR memory cell for higher storage capacity and lower cost. In addition to product offerings for cellular customers, we offer NOR flash memory products that meet the needs of other market segments, such as the embedded market segment. The embedded market segment includes set-top boxes, networking products, DVD players, DSL and cable modems, and other devices.

Intel StrataFlash wireless memory is available in the Intel® Stacked Chip Scale Package as well as in the Intel ultra-thin stacked chip-scale packaging. Intel Strata Flash wireless memory allows up to five ultra-thin memory chips to be stacked in one package, delivering greater memory capacity and lower power consumption in a smaller package. With heights as low as 1 millimeter, the package allows manufacturers to increase memory density and provide features such as camera capabilities, games, and e-mail in relatively thin cell phones. Our higher density flash products generally incorporate stacked RAM and/or NAND flash, which in some instances we purchase from third-party vendors.

In August 2006, we introduced NOR flash memory products designed for the emerging low-cost cell phone market segment. These products feature cost-efficient NOR flash memory in densities ranging from 32 megabits (Mb) to 256 Mb, with optional RAM in a multi-chip package. They are configured to work with low-cost, single-chip baseband and radio frequency solutions from leading chipset suppliers.

In September 2006, we began shipping Intel® Serial Flash Memory (S33) products designed for the NOR embedded market segment. These offerings include densities ranging from 16 Mb to 64 Mb. Intel Serial Flash Memory offers smaller packages compared to traditional NOR flash memory.

In December 2006, we began shipping our first NOR flash memory products using our 65-nanometer process technology. These products have 1-gigabit (Gb) densities and are designed for the high-end cell phone market segment.

NAND Flash Memory

We develop NAND flash memory products for use primarily in memory cards, digital audio players, and cellular phones. In February 2006, we began shipping our first NAND flash memory products. These products are currently available in densities of up to 4 Gb, and in stacked packaging, in densities of up to 16 Gb. Additionally, we offer multi-level cell NAND flash memory products. Our NAND flash products are manufactured by IMFT using either 72- or 90-nanometer process technology.

Digital Home Group

The Digital Home Group designs and delivers products and platforms for consumer products such as PCs, digital TVs, and networked media devices that meet the demands of consumers through a variety of linked digital devices within the home for the enjoyment of digital media and other content. In January 2006, we began offering Intel Viiv technology-based platforms for use in the digital home. In addition, we offer products for demodulation and tuner applications as well as processors and chipsets for embedded consumer electronics designs such as digital televisions, digital video recorders, and set-top boxes.

PCs based on Intel Viiv technology are designed to make it easier to download, manage, and share the growing amount of digital programming available worldwide, and view that programming on a choice of TVs, PCs, or

handheld products. Intel Viiv technology-based systems are designed to provide easier connectivity and interoperability with consumer electronics devices compared to traditional PCs. Platforms based on Intel Viiv technology include one of the following processors: Intel Core 2 Duo, Intel Core 2 Extreme, Intel Core 2 Extreme quad-core, Intel Core Duo, Intel Pentium D, or Pentium® Processor Extreme Edition; as well as a chipset; a network connectivity device; and enabling software all optimized to work together in the digital home environment.

In July 2006, we introduced the first digital home processor based on the new Intel Core microarchitecture. The Intel Core 2 Extreme processor X6800 is designed for gaming PCs, runs at a speed of 2.93 GHz, supports a 1066-MHz bus, and includes 4 MB of shared L2 cache.

In November 2006, we introduced the Intel Core 2 Extreme quad-core processor QX6700, the first quad-core desktop processor designed for gaming PCs. This processor runs at a speed of 2.66 GHz, supports a 1066-MHz bus, includes 8 MB of shared L2 cache, and supports 64-bit extensions and Intel VT.

Table of Contents***Digital Health Group***

The Digital Health Group focuses on the digital hospital and consumer/home health products. The Digital Health Group is developing products but currently does not have any discrete product offerings.

Channel Platforms Group

The Channel Platforms Group tailors mainstream platforms to meet local market requirements, and develops and enables unique solutions to meet the needs of users in the developing world.

Manufacturing and Assembly and Test

As of year-end 2006, 68% of our wafer manufacturing, including microprocessor, chipset, NOR flash memory, and communications silicon fabrication, was conducted within the U.S. at our facilities in Arizona, New Mexico, Oregon, Massachusetts, California, and Colorado¹. Outside the U.S., 32% of our manufacturing was conducted at our facilities in Ireland and Israel.

As of December 2006, we primarily manufactured our products in the wafer fabrication facilities described below:

Products	Wafer Size	Process Technology	Locations
Microprocessors	300mm	65nm	Ireland, Arizona, Oregon
Microprocessors, chipsets, and communications infrastructure	300mm	90nm	New Mexico, Ireland
NOR flash memory	200mm	65nm	California, Israel
NOR flash memory and communications infrastructure	200mm	90nm	Israel, California
Chipsets, NOR flash memory, and other products	200mm	130nm	New Mexico, Oregon, Massachusetts, Arizona, Ireland, Colorado ¹
Chipsets and other products	200mm	180nm and above	Ireland, Israel

¹ *Management placed for sale our Colorado fabrication facility. For further discussion, see Note 11: Restructuring and Asset Impairment Charges in Part II, Item 8 of this Form 10-K.*

We expect to increase the capacity of certain facilities listed above through additional investments in capital equipment. In addition to our current facilities, we are building facilities in Arizona and Israel that, in 2007 and 2008 respectively, are expected to begin wafer fabrication for microprocessors on 300mm wafers using 45-nanometer technology.

As of year-end 2006, the majority of our microprocessors were manufactured on 300mm wafers using our 65-nanometer process technology. In 2007, we expect to begin manufacturing microprocessors on our 45-nanometer process technology, the next generation of advanced high-volume production process technology beyond our 65-nanometer process technology. As we move to each succeeding generation of manufacturing process technology, we incur significant start-up costs to prepare each factory for manufacturing. However, continuing to advance our process technology provides benefits that we believe justify these costs. These benefits can include utilizing less space per transistor, which decreases the size of the chip and/or enables us to increase the number of integrated features on each chip; reducing heat output from each transistor; and improving power efficiency. These advancements can result

in higher performing microprocessors, products that consume less power, and/or products that cost less to manufacture. To augment capacity in the U.S. and internationally, we use third-party manufacturing companies (foundries) to manufacture wafers for certain components, including chipset, networking, and communications products.

Our NAND flash memory products are manufactured by IMFT, a NAND flash memory manufacturing company that we formed with Micron. We currently purchase 49% of the manufactured output of IMFT. See Note 17: Venture in Part II, Item 8 of this Form 10-K.

We primarily use subcontractors to manufacture board-level products and systems, and purchase certain communications networking products from external vendors, primarily in the Asia-Pacific region. We also manufacture microprocessor- and networking-related board-level products, primarily in Malaysia.

Table of Contents

Following the manufacturing process, the majority of our components are subject to assembly and test. We perform a substantial majority of our components assembly and test at facilities in Malaysia, the Philippines, China, and Costa Rica. We plan to continue investing in new assembly and test technologies as well as increasing the capacity of our existing facilities and building new facilities to keep pace with our microprocessor, chipset, flash memory, and communications technology improvements. In line with these plans, we plan to build a new assembly and test facility in Vietnam, which is expected to begin production in 2009. This facility will have greater square footage than our current facilities, which will enable us to take advantage of greater efficiencies of scale. To augment capacity, we use subcontractors to perform assembly of certain products, primarily flash memory, chipsets, and networking and communications products. Assembly and test of NAND flash memory products manufactured by IMFT is performed by Micron and other external subcontractors.

Our performance expectations for business integrity; ethics; and environmental, health, and safety compliance are the same, regardless of whether our supplier and subcontractor operations are based in the U.S. or elsewhere. Our employment practices are consistent with, and we expect our suppliers and subcontractors to abide by, local country law. In addition, we impose a minimum employee age requirement regardless of local law.

We have thousands of suppliers, including subcontractors, providing our various materials and service needs. We set expectations for supplier performance and reinforce those expectations with periodic assessments. We communicate those expectations to our suppliers regularly and work with them to implement improvements when necessary. We seek, where possible, to have several sources of supply for all of these materials and resources, but we may rely on a single or limited number of suppliers, or upon suppliers in a single country. In those cases, we develop and implement plans and actions to reduce the exposure that would result from a disruption in supply.

Our products typically are produced at multiple Intel facilities at various sites around the world, or by subcontractors who have multiple facilities. However, some products are produced in only one Intel or subcontractor facility, and we seek to implement actions and plans to reduce the exposure that would result from a disruption at any such facility. On a worldwide basis, we regularly evaluate our key infrastructure, systems, services, and suppliers, both internally and externally, to seek to identify significant vulnerabilities as well as areas of potential business impact if a disruptive event were to occur. Once vulnerability is identified, we assess the risks, and as we consider it to be appropriate, we initiate actions intended to reduce the risks and their potential impact. However, there can be no assurance that we have identified all significant risks or that we can mitigate all identified risks with reasonable effort. See Risk Factors in Part I, Item 1A of this Form 10-K.

We maintain a program of insurance coverage for various types of property, casualty, and other risks. We place our insurance coverage with various carriers in numerous jurisdictions. The policies are subject to deductibles and exclusions that result in our retention of a level of risk on a self-insurance basis. The types and amounts of insurance obtained vary from time to time and from location to location, depending on availability, cost, and our decisions with respect to risk retention. Our worldwide risk and insurance programs are regularly evaluated to seek to obtain the most favorable terms and conditions.

Research and Development

We continue to be committed to investing in world-class technology development, particularly in the area of the design and manufacture of integrated circuits. Research and development (R&D) expenditures in 2006 amounted to \$5.9 billion (\$5.1 billion in fiscal year 2005 and \$4.8 billion in fiscal year 2004). The increase in R&D expenditures was primarily due to share-based compensation effects of \$487 million. See Note 3: Employee Equity Incentive Plans in Part II, Item 8 of this Form 10-K.

Our R&D activities are directed toward developing innovations that we believe will deliver the next generation of products and platforms, which will in turn enable new form factors and new usage models for businesses and consumers. We are focusing our R&D efforts on advanced computing, communications, and wireless technologies by developing new microarchitectures, advancing our silicon manufacturing process technology, delivering the next generation of microprocessors and chipsets, improving our platform initiatives, and developing software solutions and tools to support our technologies. In line with these efforts, we plan to introduce a new microarchitecture approximately every two years and ramp the next generation of silicon process technology in the intervening years. Our R&D efforts enable new levels of performance and address areas such as scalability for multi-core architectures, system manageability, energy efficiency, digital content protection, and new communication capabilities. Our leadership in silicon technology has enabled us to make Moore's Law a reality. Moore's Law predicted that transistor density on integrated circuits would double about every two years. Our leadership in silicon technology helps to continue to make Moore's Law a reality while also bringing new capabilities into silicon and producing new products and platforms optimized for a wider variety of applications. We have completed development of our 45-nanometer process technology, and we expect to begin manufacturing products using our 45-nanometer process technology in the second half of 2007. In the area of wireless communications, our initiatives focus on delivering the technologies that will enable improved wireless capabilities, including expanding and proliferating WiMAX technologies and products.

Table of Contents

We do not expect that all of our research and product development projects will result in products that are ultimately released for sale. We may terminate research and/or product development before completion or decide not to manufacture and sell a developed product for a variety of reasons. For example, we may decide that a product might not be sufficiently competitive in the relevant market segment, or for technological or marketing reasons, we may decide to offer a different product instead.

Our R&D model is based on a global organization that emphasizes a collaborative approach in identifying and developing new technologies, leading standards initiatives, and influencing regulatory policy to accelerate the adoption of new technologies. Our R&D initiatives are performed by various business groups within the company, and we centrally manage key cross-business group product initiatives to align and prioritize our R&D activities across these groups. In addition, we may augment our R&D initiatives by investing in companies that are focused on the same areas as our research and development. We also work with a worldwide network of academic and industry researchers, scientists, and engineers in the computing and communications fields. Our network of technology professionals allows us, as well as others in our industry, to benefit from development initiatives in a variety of areas, eventually leading to innovative technologies for users. We believe that we are well positioned in the technology industry to help drive innovation, foster collaboration, and promote industry standards that will yield innovative and improved technologies for users.

We have an agreement with Micron for joint development of NAND flash memory technologies. Costs incurred by Intel and Micron for process development are generally split evenly. As the owner of the product designs, Intel assumes the cost for product development and licenses certain product designs to Micron on a royalty-bearing basis.

We perform a majority of our R&D in the U.S. We have been increasing our product development outside the U.S. and have activities at various locations, primarily within Israel, Malaysia, India, China, and Russia. We also maintain R&D facilities in the U.S. focused on developing and improving manufacturing processes, as well as facilities in the U.S., Malaysia, and the Philippines dedicated to improvements in assembly and test processes.

Employees

In September 2006, we announced a restructuring plan that included expected headcount reductions, primarily through workforce reductions, attrition, and targeted divestitures. These actions have resulted in headcount reductions during 2006. See Results of Operations within Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Form 10-K for further details regarding our restructuring actions. As of December 30, 2006, we had approximately 94,100 employees worldwide, with more than 50% of these employees located in the U.S. As of December 31, 2005, we had approximately 99,900 employees worldwide.

Sales and Marketing

Most of our products are sold or licensed through sales offices located near major concentrations of users, throughout the Asia-Pacific, Americas, Europe, and Japan regions. Our business relies on continued sales growth in both mature and emerging markets.

Sales of our products are typically made via purchase orders that contain standard terms and conditions covering matters such as pricing, payment terms, and warranties, as well as indemnities for issues specific to our products, such as patent and copyright indemnities. From time to time, we may enter into additional agreements with customers covering, for example, changes from our standard terms and conditions, new product development and marketing, private-label branding, and other matters. Most of our sales are made using electronic and web-based processes that allow the customer to review inventory availability and track the progress of specific goods under order. Pricing on

particular products may vary based on volumes ordered and other factors.

We sell our products to OEMs and ODMs. ODMs provide design and/or manufacturing services to branded and unbranded private-label resellers. We also sell our products to industrial and retail distributors. In certain instances, we have entered into supply agreements to continue to manufacture and sell products within divested business lines to acquiring companies during certain transition periods. In 2006, Dell Inc. accounted for 19% of our net revenue, and Hewlett-Packard Company accounted for 16% of our net revenue. No other customer accounted for more than 10% of our net revenue. For information about revenue and operating profit by operating segment, and revenue from unaffiliated customers by geographic region/country, see Note 20: Operating Segment and Geographic Information in Part II, Item 8 of this Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Form 10-K.

Table of Contents

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 a right of return on stipulated quantities of unsold merchandise. We also utilize third-party sales representatives who generally do not offer directly competitive products but may carry complementary items manufactured by others. Sales representatives do not maintain a product inventory; instead, their customers place orders directly with us or through distributors.

Our worldwide reseller sales channel consists of thousands of indirect customers who are systems builders and purchase Intel microprocessors and other products from our distributors. We have a boxed processor program that allows distributors to sell Intel microprocessors in small quantities to these systems-builder customers; boxed processors are also made available in direct retail outlets.

Our corporate marketing focus is on multi-core microprocessors, which include Intel Core 2 Duo, Intel Core 2 Extreme, and Intel Core 2 Quad processors. These processors are at the center of Intel's most advanced platforms, which include Intel Centrino mobile technology, Intel vPro technology, and Intel Viiv technology. The Intel Core 2 Quad, Intel Core 2 Extreme, Intel Core 2 Duo, Itanium, Intel Xeon, Pentium, and Celeron trademarks make up our processor brands. We promote brand awareness and generate demand through our own direct marketing as well as co-marketing programs. Our direct marketing activities include television, print and web-based advertising, as well as press relations, consumer and trade events, and industry and consumer communications. We market to consumer and business audiences and focus on building awareness and generating demand for increased performance, power efficiency, and new capabilities.

Purchases by customers often allow them to participate in cooperative advertising and marketing programs such as the Intel Inside® program. Through the Intel Inside program, certain customers are licensed to place Intel logos on computers containing our microprocessors and our other technology, and to use our brands in marketing activities. The program includes a market development component that accrues funds based on purchases and partially reimburses the OEMs for marketing activities for products featuring Intel brands, subject to the OEMs meeting defined criteria. This program broadens the reach of our brands beyond the scope of our own direct advertising. In addition, it provides us with the opportunity to do joint marketing with certain customers.

Our products are typically shipped under terms that transfer title to the customer, even in arrangements for which the recognition of revenue on the sale is deferred. Our standard terms and conditions of sale typically provide that payment is due at a later date, generally 30 days after shipment, delivery, or the customer's use of the product. Our credit department sets accounts receivable and shipping limits for individual customers for the purpose of controlling credit risk to Intel arising from outstanding account balances. We assess credit risk through quantitative and qualitative analysis, and from this analysis, we establish credit limits and determine whether we will seek to use one or more credit support devices, such as obtaining some form of third-party guaranty or standby letter of credit, or obtaining credit insurance for all or a portion of the account balance. Credit losses may still be incurred due to bankruptcy, fraud, or other failure of the customer to pay. See Schedule II Valuation and Qualifying Accounts in Part IV of this Form 10-K for information about our allowance for doubtful receivables.

Backlog

We do not believe that backlog as of any particular date is meaningful, as our sales are made primarily pursuant to standard purchase orders for delivery of products. Only a small portion of our orders are non-cancelable, and the dollar amount associated with the non-cancelable portion is not significant.

Competition

Our products compete primarily on the basis of performance, features, quality, brand recognition, price, and availability. Our ability to compete depends on our ability to provide innovative products and worldwide support for our customers at competitive prices, including providing improved energy-efficient performance, enhanced security, reduced heat output, manageability, and integrated solutions. In addition to our various computing, networking, and communications products, we offer platforms that incorporate various components, which bring together a collection of technologies that we believe create a better end-user solution than if the ingredients were used separately.

Table of Contents

The semiconductor industry is characterized by rapid advances in technology and new product introductions. As unit volumes of a particular product grow, production experience is accumulated and costs typically decrease, further competition develops, and as a result, prices decline. The life cycle of our products is very short, sometimes less than a year. Our ability to compete depends on our ability to improve our products and processes faster than our competitors, anticipate changing customer requirements, and develop and launch new products and platforms, while reducing our average per unit costs. When we believe it is appropriate, we will take various steps, including introducing new products and platforms, discontinuing older products, reducing prices, and offering rebates and other incentives, to increase acceptance of our latest products and to be competitive within each relevant market segment. Our products compete with products developed for similar or rival architectures and with products based on the same or rival standards. We cannot predict which competing standards will become the prevailing standards in the market segments in which we compete. See Risk Factors in Part I, Item 1A of this Form 10-K.

Many companies compete with us in the various computing, networking, and communications market segments, and are engaged in the same basic business activities, including research and development. Worldwide, these competitors range in size from large established multinational companies with multiple product lines to smaller companies and new entrants to the marketplace that compete in specialized market segments. Some of our competitors may have development agreements with other companies, and in some cases our competitors may also be our customers and/or suppliers. Product offerings may cross over into multiple product categories, offering us new opportunities but also resulting in more competition. It may be difficult for us to compete in market segments where our competitors have established products and brand recognition.

We believe that our network of manufacturing facilities and assembly and test facilities gives us a competitive advantage. This network enables us to have more direct control over our processes, quality control, product cost, volume, timing of production, and other factors. These facilities require significant up-front capital spending, and many of our competitors do not own such facilities because they cannot afford to do so or because their business models involve the use of third-party facilities for manufacturing and assembly and test. These fabless semiconductor companies include Broadcom Corporation, NVIDIA Corporation, QUALCOMM Incorporated, and VIA Technologies, Inc. (VIA). Some of our competitors own portions of such facilities through investment or joint-venture arrangements with other companies. There is a group of third-party manufacturing companies (foundries) and assembly and test subcontractors that offers their services to companies without owned facilities or companies needing additional capacity. These foundries and subcontractors may also offer intellectual property, design services, and other goods and services to our competitors. Competitors who outsource their manufacturing and assembly and test operations can significantly reduce their capital expenditures.

We plan to continue to cultivate new businesses and work with the computing and communications industries through standards bodies, trade associations, OEMs, ODMs, and independent software and operating system vendors to help align the industry to offer products that take advantage of the latest market trends and usage models. These efforts include helping to build out the infrastructure for wireless network connectivity. We are also working with these industries to develop software applications and operating systems that take advantage of our platforms through programs such as the Intel® Software Partner Program, which provides opportunities that help companies develop, market, and sell solutions that take advantage of the latest Intel platforms and technologies. We frequently participate in industry initiatives designed to discuss and agree upon technical specifications and other aspects of technologies that could be adopted as standards by standards-setting organizations. In addition, we work collaboratively with other companies to protect digital content and the consumer by developing content protection specifications such as the Digital Transmission Content Protection (DTCP) specification. DTCP defines a secure protocol for protecting audio and video entertainment content from illegal copying, intercepting, and tampering as it moves across digital interfaces such as Universal Serial Bus (USB) and IP-based home networks. Our competitors may also participate in the same initiatives and specification development. Our participation does not ensure that any standards or specifications

adopted by these organizations will be consistent with our product planning. We continuously evaluate our product offerings and the timing of their introductions, taking into account factors such as customer requirements and availability of infrastructure to take advantage of product features, performance, and maturity of application software for each type of product in the relevant market segments.

Companies in the semiconductor industry often rely on the ability to license patents from each other in order to compete in today's markets. Many of our competitors have broad cross-licenses or licenses with us, and under current case law, some such licenses may permit these competitors to pass our patent rights on to others. If one of these licensees becomes a foundry, our competitors might be able to avoid our patent rights in manufacturing competing products. In addition to licensing our patents to competitors, we participate in some industry organizations that are engaged in the development of standards or specifications and may require us to license our patents to other companies that adopt such industry standards or specifications, even when such organizations do not adopt the standards or specifications proposed by Intel. Any Intel patents that may be subject to the licensing policies of such organizations due to our participation in such initiatives might not, in some situations, be available for us to enforce against others who might be infringing those patents. See "Risk Factors" in Part I, Item 1A of this Form 10-K.

Table of Contents

We continue to be largely dependent on the success of our microprocessor business. Our ability to compete depends on our ability to deliver new microprocessor products with improved overall performance and/or improved energy-efficient performance at competitive prices. Many of our competitors, including Advanced Micro Devices, Inc. (AMD), our primary microprocessor competitor, market software-compatible products that compete with our processors. We also face competition from companies offering rival microarchitecture designs, such as Cell Broadband Engine Architecture developed jointly by International Business Machines Corporation (IBM), Sony Corporation, and Toshiba Corporation. Our desktop processors compete with products offered by AMD, IBM, and VIA, among others. Our mobile microprocessor products compete with products offered by AMD, IBM, Transmeta Corporation, and VIA, among others. Our server processors compete with software-compatible products offered by AMD and with products based on rival architectures, including the Service-Oriented Architecture (SOA) offered by IBM and the Scalable Processor Architecture (SPARC*) offered by Sun Microsystems, Inc.

Our chipsets compete in the various market segments against different types of chipsets that support either our microprocessor products or rival microprocessor products. Competing chipsets are produced by companies such as ATI Technologies, Inc. (recently acquired by AMD), NVIDIA, Silicon Integrated Systems Corporation (SIS), and VIA. We also compete with companies offering graphics components and other special-purpose products used in the desktop, mobile, and server market segments. One aspect of our business model is to incorporate improved performance and advanced properties into our microprocessors and chipsets, the demand for which may increasingly be affected by competition from companies, such as NVIDIA, whose business models are based on incorporating improved performance into dedicated chipsets and other components, such as graphics controllers.

Our NOR and NAND flash memory products currently compete with the products of other companies, such as Hynix Semiconductor Inc., Micron, Samsung Electronics Co., Ltd., Spansion Inc., STMicroelectronics NV, and Toshiba.

We offer products designed for wired and wireless connectivity; for the communications infrastructure, including network processors; and for networked storage. These products currently compete against offerings from companies such as Applied Micro Circuits Corporation, AMD, Broadcom, Freescale Semiconductor, Inc., IBM, OpNext, Inc., Sun Microsystems, and VIA.

We also offer platforms for the desktop, mobile, and server market segments that integrate components that enable targeted usage models. We believe that our platform offerings give us a competitive advantage. Our platforms are designed to meet the specific needs of end users and are optimized to deliver increased security and manageability, energy-efficient performance, and other innovative solutions embedded into our microprocessors. With AMD's acquisition of ATI Technologies, we anticipate increased platform competition in various market segments.

Acquisitions and Strategic Investments

During 2006, the company did not complete any acquisitions qualifying as business combinations. In 2006, Intel formed IMFT, a NAND flash memory manufacturing company, with Micron. Intel invested \$1.3 billion in return for a 49% interest. See Note 17: Venture in Part II, Item 8 of this Form 10-K. Also during 2006, Intel paid \$600 million for an investment in Clearwire Corporation. Clearwire builds and operates next-generation wireless broadband networks. See Note 7: Investments in Part II, Item 8 of this Form 10-K.

Intellectual Property and Licensing

Intellectual property rights that apply to our various products and services include patents, copyrights, trade secrets, trademarks, and maskwork rights. We maintain an active program to protect our investment in technology by attempting to ensure respect for our intellectual property rights. The extent of the legal protection given to different

types of intellectual property rights varies under different countries' legal systems. We intend to license our intellectual property rights where we can obtain adequate consideration. See [Competition](#) in Part I, Item 1 of this Form 10-K; [Legal Proceedings](#) in Part I, Item 3 of this Form 10-K; and [Risk Factors](#) in Part I, Item 1A of this Form 10-K.

Table of Contents

We have filed and obtained a number of patents in the U.S. and abroad. While our patents are an important element of our success, our business as a whole is not materially dependent on any one patent. We and other companies in the computing, telecommunications, and related high-technology fields typically apply for and receive, in the aggregate, tens of thousands of overlapping patents annually in the U.S. and other countries. We believe that the duration of the applicable patents we are granted is adequate relative to the expected lives of our products. Because of the fast pace of innovation and product development, our products are often obsolete before the patents related to them expire, and sometimes are obsolete before the patents related to them are even granted. As we expand our product offerings into new industries, such as consumer electronics, we also seek to extend our patent development efforts to patent such product offerings. Established competitors in existing and new industries, as well as companies that purchase and enforce patents and other intellectual property, may already have patents covering similar products. There is no assurance that we will be able to obtain patents covering our own products, or that we will be able to obtain licenses from such companies on favorable terms or at all.

The large majority of the software we distribute, including software embedded in our component and system-level products, is entitled to copyright protection.

To distinguish Intel products from our competitors' products, we have obtained certain trademarks and trade names for our products, and we maintain cooperative advertising programs with certain customers to promote our brands and to identify products containing genuine Intel components.

We also protect certain details about our processes, products, and strategies as trade secrets, keeping confidential the information that we believe provides us with a competitive advantage. We have ongoing programs designed to maintain the confidentiality of such information.

Compliance with Environmental, Health, and Safety Regulations

Intel is committed to achieving high standards of environmental quality and product safety, and strives to provide a safe and healthy workplace for our employees, contractors, and the communities in which we do business. We have environmental, health, and safety (EHS) policies and expectations that apply to our global operations. Each of Intel's worldwide production facilities is registered to the International Organization for Standardization (ISO) 14001 environmental management system standard. Intel's internal EHS auditing program addresses not only compliance but also business risk and management systems. We focus on minimizing and properly managing hazardous materials used in our facilities and products. We monitor regulatory and resource trends and set company-wide short- and long-term performance targets for key resources and emissions. These targets address several parameters, including energy and water use, climate change, waste recycling, and emissions. For example, we continue to take action to achieve our global energy reduction goal by investing in energy conservation projects in our factories and working with suppliers of manufacturing tools to improve energy efficiency. Intel also is focused on developing innovative solutions to improve the energy efficiency of our products and those of our customers. Intel has taken a holistic approach to power management, addressing the challenge at all levels, including the silicon, package, circuit, micro/macro architecture, platform, and software levels.

The production of Intel products requires the use of hazardous materials that are subject to a broad array of EHS laws and regulations. Intel actively monitors the materials used in the production of our products. Intel has specific restrictions on the content of certain hazardous materials in our products, as well as those of our suppliers and outsourced manufacturers and subcontractors. Intel continues to make efforts to reduce hazardous materials in our products to position us to meet various environmental restrictions on product content throughout the world. As Intel continues to advance process technology, the materials, technologies, and products themselves become increasingly complex. Our evaluations of materials for use in R&D and production take into account EHS considerations. Compliance with these complex laws and regulations, as well as internal voluntary programs, is integrated into Intel's

design for EHS programs.

Intel is committed to the protection of human rights and the environment throughout its supply chain. Intel expects suppliers to understand and fully comply with all EHS and related laws and regulations. In addition, suppliers are expected to abide by Intel's policies, such as its Corporate Business Principles and the Electronics Industry Code of Conduct; maintain progressive employment practices; and comply with other applicable laws including, at a minimum, those covering non-discrimination in the terms and conditions of employment, child labor, minimum wages, employee benefits, and work hours.

Table of Contents

Executive Officers of the Registrant

The following sets forth certain information with regard to the executive officers of Intel as of February 23, 2007 (ages are as of December 30, 2006):

Craig R. Barrett (age 67) has been a director of Intel since 1992 and Chairman of the Board since 2005. Prior to that, Dr. Barrett was Chief Executive Officer from 1998 to 2005; President from 1997 to 2002; Chief Operating Officer from 1993 to 1997; and Executive Vice President from 1990 to 1997.

Paul S. Otellini (age 56) has been a director of Intel since 2002 and President and Chief Executive Officer since 2005. Prior to that, Mr. Otellini was Chief Operating Officer from 2002 to 2005; Executive Vice President and General Manager, Intel Architecture Group, from 1998 to 2002; Executive Vice President and General Manager, Sales and Marketing Group, from 1996 to 1998; and Senior Vice President and General Manager, Sales and Marketing Group, from 1994 to 1996.

Andy D. Bryant (age 56) has been Executive Vice President and Chief Financial and Enterprise Services Officer since 2001, and was Senior Vice President and Chief Financial and Enterprise Services Officer from 1999 to 2001. Prior to that, Mr. Bryant was Senior Vice President and Chief Financial Officer in 1999, and Vice President and Chief Financial Officer from 1994 to 1999.

Sean M. Maloney (age 50) has been Executive Vice President and General Manager, Sales and Marketing Group, and Chief Sales and Marketing Officer since July 2006. Prior to that, Mr. Maloney was Executive Vice President and General Manager, Mobility Group, from 2005 to 2006; Executive Vice President and General Manager, Intel Communications Group, from 2001 to 2005; Executive Vice President and Director, Sales and Marketing Group, in 2001; Senior Vice President and Director, Sales and Marketing Group, from 1999 to 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.

Robert J. Baker (age 51) has been Senior Vice President and General Manager, Technology and Manufacturing Group, since 2001, and was Vice President and General Manager, Components Manufacturing, from 2000 to 2001. Prior to that, Mr. Baker managed Fab Sort Manufacturing from 1999 to 2000 and Microprocessor Components Manufacturing from 1996 to 1999.

Patrick P. Gelsinger (age 45) has been Senior Vice President and General Manager, Digital Enterprise Group, since 2005. Prior to that, Mr. Gelsinger was Chief Technology Officer from 2001 to 2005; Chief Technology Officer, Computing Group, from 2000 to 2001; and Vice President and General Manager, Desktop Products Group, from 1996 to 2000.

David Perlmutter (age 53) has been Senior Vice President and General Manager, Mobility Group, since 2005. Prior to that, Mr. Perlmutter was Vice President and General Manager, Mobility Group, in 2005; Vice President and General Manager, Mobile Platforms Group, from 2000 to 2005; and Vice President, Microprocessor Group, and General Manager, Basic Microprocessor Division and Intel Israel Development Center, from 1996 to 2000.

D. Bruce Sewell (age 48) has been Senior Vice President and General Counsel since 2005. Prior to that, Mr. Sewell was Vice President and General Counsel in 2005; Vice President, Legal and Government Affairs and Deputy General Counsel from 2001 to 2004; and served in a variety of senior legal positions at Intel from 1995 to 2001.

Arvind Sodhani (age 52) has been Senior Vice President of Intel and President of Intel Capital since 2005. Prior to that, Mr. Sodhani was Senior Vice President and Treasurer of Intel in 2005; Vice President and Treasurer from 1990

to 2005; and Treasurer from 1988 to 1990.

William M. Holt (age 54) has been Senior Vice President and General Manager, Technology and Manufacturing Group, since November 2006. Prior to that, Mr. Holt was Vice President and Co-General Manager, Technology and Manufacturing Group, from 2005 to November 2006, and Vice President and Director, Logic Technology Development, from 1999 to 2005.

Thomas M. Kilroy (age 49) has been Vice President and General Manager, Digital Enterprise Group, since 2005. Prior to that, Mr. Kilroy was Vice President, Sales and Marketing Group, and Co-President of Intel Americas, Inc. from 2003 to 2005; Vice President, Sales and Marketing Group, and General Manager, Communication Sales Organization, in 2003; and Vice President, Sales and Marketing Group, and General Manager, Reseller Channel Operation, from 2000 to 2003.

Table of Contents

ITEM 1A. RISK FACTORS

Fluctuations in demand for our products may adversely affect our financial results and are difficult to forecast.

If demand for our products fluctuates, our revenue and gross margin could be adversely affected. Important factors that could cause demand for our products to fluctuate include:

- competitive pressures from companies that have competing products, chip architectures, and manufacturing technologies including product offerings, marketing programs, and pricing pressures;
- changes in customer product needs;
- changes in the level of customers' component inventory;
- changes in business and economic conditions, including a downturn in the semiconductor industry;
- strategic actions taken by our competitors; and/or
- market acceptance of our products.

If demand for our products is reduced, our manufacturing and/or assembly and test capacity could be under-utilized, and we may be required to record an impairment on our long-lived assets including facilities and equipment, as well as intangible assets, which would increase our expenses. In addition, factory planning decisions may shorten the useful lives of long-lived assets including facilities and equipment and cause us to accelerate depreciation. In the long term, if demand for our products increases, we may not be able to add manufacturing and/or assembly and test capacity fast enough to meet market demand. These changes in demand for our products, and changes in our customers' product needs, could have a variety of negative effects on our competitive position and our financial results, and, in certain cases, may reduce our revenue, increase our costs, lower our gross margin percentage, or require us to recognize impairments of our assets. In addition, if demand for our products is reduced or we fail to accurately forecast demand, we could be required to write down inventory, which would have a negative impact on our gross margin.

The semiconductor industry and our operations are characterized by a high percentage of costs that are fixed or otherwise difficult to reduce in the short term, and by product demand that is highly variable and subject to significant downturns that may adversely affect our business, results of operations, and financial condition.

The semiconductor industry and our operations are characterized by high costs, such as those related to facility construction and equipment, research and development, and employment and training of a highly skilled workforce, that are either fixed or difficult to reduce in the short term. At the same time, demand for our products is highly variable and there have been downturns, often in connection with maturing product cycles as well as downturns in general economic market conditions. These downturns have been characterized by reduced product demand, manufacturing overcapacity, high inventory levels, and lower average selling prices. The combination of these factors may cause our revenue, gross margin, cash flow, and profitability to vary significantly in both the short and long term.

We operate in intensely competitive industries, and our failure to respond quickly to technological developments and incorporate new features into our products could have an adverse effect on our ability to compete.

We operate in intensely competitive industries that experience rapid technological developments, changes in industry standards, changes in customer requirements, and frequent new product introductions and improvements. If we are unable to respond quickly and successfully to these developments, we may lose our competitive position, and our products or technologies may become uncompetitive or obsolete. To compete successfully, we must maintain a successful R&D effort, develop new products and production processes, and improve our existing products and processes at the same pace or ahead of our competitors. We may not be able to successfully develop and market these new products, the products we invest in and develop may not be well received by customers, and products developed and new technologies offered by others may affect the demand for our products. These types of events could have a

variety of negative effects on our competitive position and our financial results, such as reducing our revenue, increasing our costs, lowering our gross margin percentage, and requiring us to recognize impairments of our assets.

Fluctuations in the mix of products sold may adversely affect our financial results.

Because of the wide price differences among mobile, desktop, and server microprocessors, the mix and types of performance capabilities of microprocessors sold affect the average selling price of our products and have a substantial impact on our revenue. Our financial results also depend in part on the mix of other products we sell, such as chipsets, flash memory, and other semiconductor products. In addition, more recently introduced products tend to have higher associated costs because of initial overall development costs and higher start-up costs. Fluctuations in the mix and types of our products may also affect the extent to which we are able to recover our fixed costs and investments that are associated with a particular product, and as a result can negatively impact our financial results.

Table of Contents

Our global operations subject us to risks that may negatively affect our results of operations and financial condition.

We have sales offices, research and development, manufacturing, and assembly and test facilities in many countries, and as a result, we are subject to risks associated with doing business globally. Our global operations may be subject to risks that may limit our ability to manufacture, assemble and test, design, develop, or sell products in particular countries, which could in turn have an adverse effect on our results of operations and financial condition, including:

- security concerns, such as armed conflict and civil or military unrest, crime, political instability, and terrorist activity;
- health concerns;
- natural disasters;
- inefficient and limited infrastructure and disruptions, such as large-scale outages or interruptions of service from utilities or telecommunications providers and supply chain interruptions;
- differing employment practices and labor issues;
- local business and cultural factors that differ from our normal standards and practices;
- regulatory requirements and prohibitions that differ between jurisdictions; and/or
- restrictions on our operations by governments seeking to support local industries, nationalization of our operations, and restrictions on our ability to repatriate earnings.

In addition, although most of our products are priced and paid for in U.S. dollars, a significant amount of certain types of expenses, such as payroll, utilities, tax, and marketing expenses, are paid in local currencies. Our hedging programs reduce, but do not always entirely eliminate, the impact of currency exchange rate movements, and therefore fluctuations in exchange rates, including those caused by currency controls, could negatively impact our business operating results and financial condition by resulting in lower revenue or increased expenses. In addition, changes in tariff and import regulations and to U.S. and non-U.S. monetary policies may also negatively impact our revenue in those affected countries. Varying tax rates in different jurisdictions could negatively impact our overall tax rate.

Failure to meet our production targets, resulting in undersupply or oversupply of products, may adversely impact our business and results of operations.

Production of integrated circuits is a complex process. Disruptions in this process can result from difficulties in our development and implementation of new processes, errors, and interruptions in the processes; defects in materials; and disruptions in our supply of materials or resources all of which could affect the timing of production ramps and yields. Furthermore, we may not be successful or efficient in developing or implementing new production processes. The occurrence of any of the foregoing may result in our failure to increase production as desired, resulting in higher costs or substantial decreases in yields, which could impact our ability to produce sufficient volume to meet specific product demand. Furthermore, the unavailability or reduced availability of certain products could make it more difficult to implement our platform strategy. We may also experience increases in yields. A substantial increase in yields could result in higher inventory levels and the possibility of resulting excess capacity charges as we slow production to reduce inventory levels. The occurrence of any of these events could adversely impact our business and results of operations.

We may have difficulties obtaining the resources or products we need for manufacturing or assembling our products or operating other aspects of our business, which could adversely affect our ability to meet demand for our products and may increase our costs.

We have thousands of suppliers providing various materials that we use in production of our products and other aspects of our business, and we seek, where possible, to have several sources of supply for all of these materials. However, we may rely on a single or a limited number of suppliers, or upon suppliers in a single country, for these materials. The inability of such suppliers to deliver adequate supplies of production materials or other supplies could disrupt our production processes or could make it more difficult for us to implement our platform strategy. In addition,

production could be disrupted by the unavailability of the resources used in production, such as water, silicon, electricity, and gases. The unavailability or reduced availability of the materials or resources we use in our business may require us to reduce production of products or may require us to incur additional costs in order to obtain an adequate supply of these materials or resources. The occurrence of any of these events could adversely impact our business and results of operations.

Costs related to product defects and errata may have an adverse impact on our results of operations and business.

Costs associated with unexpected product defects and errata (deviations from published specifications) include, for example, the costs of:

- writing down the value of inventory of defective products;
- disposing of defective products that cannot be fixed;
- recalling defective products that have been shipped to customers;
- providing product replacements for or modifications to defective products; and/or
- defending against litigation related to defective products.

These costs could be substantial and may therefore increase our expenses and adversely affect our gross margin. In addition, our reputation with our customers or end users of our products could be damaged as a result of such product defects and errata, and the demand for our products could be reduced. These factors could negatively impact our financial results and the prospects for our business.

Table of Contents

We may be subject to claims of infringement of third-party intellectual property rights, which could adversely affect our business.

From time to time, third parties may assert against us or our customers alleged patent, copyright, trademark, and other intellectual property rights to technologies that are important to our business. We may be subject to intellectual property infringement claims from certain individuals and companies who have acquired patent portfolios for the sole purpose of asserting such claims against other companies. Any claims that our products or processes infringe the intellectual property rights of others, regardless of the merit or resolution of such claims, could cause us to incur significant costs in responding to, defending, and resolving such claims, and may divert the efforts and attention of our management and technical personnel away from our business. As a result of such intellectual property infringement claims, we could be required or otherwise decide it is appropriate to:

- pay third-party infringement claims;
- discontinue manufacturing, using, or selling particular products subject to infringement claims;
- discontinue using the technology or processes subject to infringement claims;
- develop other technology not subject to infringement claims, which could be time-consuming and costly or may not be possible; and/or
- license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms.

The occurrence of any of the foregoing could result in unexpected expenses or require us to recognize an impairment of our assets, which would reduce the value of our assets and increase expenses. In addition, if we alter or discontinue our production of affected items, our revenue could be negatively impacted.

We may be subject to litigation proceedings that could adversely affect our business.

In addition to the litigation risks mentioned above, we may be subject to legal claims or regulatory matters involving stockholder, consumer, antitrust, and other issues. As described in **Legal Proceedings** in Part I, Item 3 of this Form 10-K, we are currently engaged in a number of litigation matters. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or, in cases for which injunctive relief is sought, an injunction prohibiting Intel from manufacturing or selling one or more products. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on business and results of operations for the period in which the ruling occurred or future periods.

We may not be able to enforce or protect our intellectual property rights, which may harm our ability to compete and adversely affect our business.

Our ability to enforce our patents, copyrights, software licenses, and other intellectual property is subject to general litigation risks, as well as uncertainty as to the enforceability of our intellectual property rights in various countries. When we seek to enforce our rights, we are often subject to claims that the intellectual property right is invalid, is otherwise not enforceable, or is licensed to the party against whom we are asserting a claim. In addition, our assertion of intellectual property rights often results in the other party seeking to assert alleged intellectual property rights of its own against us, which may adversely impact our business in the manner discussed above. If we are not ultimately successful in defending ourselves against these claims in litigation, we may not be able to sell a particular product or family of products, due to an injunction, or we may have to pay material amounts of damages, which could in turn negatively affect our results of operations. In addition, governments may adopt regulations or courts may render decisions requiring compulsory licensing of intellectual property to others, or governments may require that products meet specified standards that serve to favor local companies. Our inability to enforce our intellectual property rights under these circumstances may negatively impact our competitive position and our business.

Our licenses with other companies and our participation in industry initiatives may allow other companies, including competitors, to use our patent rights.

Companies in the semiconductor industry often rely on the ability to license patents from each other in order to compete. Many of our competitors have broad licenses or cross-licenses with us, and under current case law, some of these licenses may permit these competitors to pass our patent rights on to others. If one of these licensees becomes a foundry, our competitors might be able to avoid our patent rights in manufacturing competing products. In addition, our participation in industry initiatives may require us to license our patents to other companies that adopt certain industry standards or specifications, even when such organizations do not adopt standards or specifications proposed by us. As a result, our patents implicated by our participation in industry initiatives might not be available for us to enforce against others who might otherwise be deemed to be infringing those patents, our costs of enforcing our licenses or protecting our patents may increase, and the value of our intellectual property may be impaired.

Table of Contents

Changes in our decisions with regard to our announced restructuring and efficiency project, and other factors, could affect our results of operations and financial condition.

Factors that could cause actual results to differ materially from our expectations with regard to our announced restructuring include:

- timing and execution of plans and programs that may be subject to local labor law requirements, including consultation with appropriate works councils;
- assumptions related to severance and post-retirement costs;
- future acquisitions, dispositions, or investments;
- new business initiatives and changes in product roadmap, development, and manufacturing;
- changes in employment levels and turnover rates;
- assumptions related to product demand and the business environment; and/or
- assumptions related to the fair value of certain property, plant and equipment.

In order to compete, we must attract, retain, and motivate key employees, and our failure to do so could have an adverse effect on our results of operations.

In order to compete, we must attract, retain, and motivate executives and other key employees, including those in managerial, technical, sales, marketing, and support positions. Hiring and retaining qualified executives, scientists, engineers, technical staff, and sales representatives are critical to our business, and competition for experienced employees in the semiconductor industry can be intense. To help attract, retain, and motivate qualified employees, we use share-based incentive awards such as employee stock options and non-vested share units (restricted stock units). If the value of such stock awards does not appreciate as measured by the performance of the price of our common stock and/or if our other share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain, and motivate employees could be adversely impacted, which could negatively affect our results of operations.

Our results of operations could vary as a result of the methods, estimates, and judgments we use in applying our accounting policies.

The methods, estimates, and judgments we use in applying our accounting policies have a significant impact on our results of operations (see Critical Accounting Estimates in Part II, Item 7 of this Form 10-K). Such methods, estimates, and judgments are, by their nature, subject to substantial risks, uncertainties, and assumptions, and factors may arise over time that lead us to change our methods, estimates, and judgments. Changes in those methods, estimates, and judgments could significantly affect our results of operations. In particular, the calculation of share-based compensation expense under Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)), requires us to use valuation methodologies (which were not developed for use in valuing employee stock options and restricted stock units) and a number of assumptions, estimates, and conclusions regarding matters such as expected forfeitures, expected volatility of our share price, the expected dividend rate with respect to our common stock, and the exercise behavior of our employees. Furthermore, there are no means, under applicable accounting principles, to compare and adjust our expense if and when we learn about additional information that may affect the estimates that we previously made, with the exception of changes in expected forfeitures of share-based awards. Factors may arise over time that lead us to change our estimates and assumptions with respect to future share-based compensation arrangements, resulting in variability in our share-based compensation expense over time. Changes in forecasted share-based compensation expense could impact our gross margin percentage; research and development expenses; marketing, general and administrative expenses; and our tax rate.

Our failure to comply with applicable environmental laws and regulations worldwide could adversely impact our business and results of operations.

The manufacture and assembly and testing of our products require the use of hazardous materials that are subject to a broad array of environmental, health, and safety laws and regulations. Our failure to comply with any of these

applicable laws or regulations could result in:

- regulatory penalties, fines, and legal liabilities;
- suspension of production;
- alteration of our fabrication and assembly and test processes; and/or
- curtailment of our operations or sales.

In addition, our failure to properly manage the use, transportation, emission, discharge, storage, recycling, or disposal of hazardous materials could subject us to increased costs or future liabilities. Existing and future environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify our product designs, or incur other expenses associated with such laws and regulations. Many new materials that we are evaluating for use in our operations may be subject to regulation under existing or future environmental laws and regulations that may restrict our use of certain materials in our manufacturing, assembly and test processes, or products. Any of these consequences could adversely impact our business and results of operations by increasing our expenses and/or requiring us to alter our manufacturing and assembly and test processes.

Table of Contents***Changes in our effective tax rate may have an adverse effect on our results of operations.***

Our future effective tax rates may be adversely affected by a number of factors including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in the valuation of our deferred tax assets and liabilities;
- adjustments to estimated taxes upon finalization of various tax returns;
- increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions;
- changes in available tax credits;
- changes in share-based compensation expense;
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles; and/or
- the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes.

Any significant increase in our future effective tax rates could adversely impact net income for future periods. In addition, the U.S. Internal Revenue Service (IRS) and other tax authorities regularly examine our income tax returns. The IRS has proposed adjustments or issued formal assessments related to amounts reflected on certain of our tax returns as a tax benefit for our export sales. See Note 19: Contingencies in Part II, Item 8 of this Form 10-K. Our results of operations could be adversely impacted if these assessments or any other assessments resulting from the examination of our income tax returns by the IRS or other taxing authorities are not resolved in our favor.

We invest in companies for strategic reasons and may not realize a return on our investments.

We make investments in companies around the world to further our strategic objectives and support our key business initiatives. Such investments include investments in equity securities of public companies and investments in non-marketable equity securities of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies whose products or technologies may directly support an Intel product or initiative. The success of these companies is dependent on product development, market acceptance, operational efficiency, and other key business success factors. The private companies in which we invest may fail because they may not be able to secure additional funding, obtain favorable investment terms for future financings, or take advantage of liquidity events such as initial public offerings, mergers, and private sales. If any of these private companies fail, we could lose all or part of our investment in that company. If we determine that an other-than-temporary decline in the fair value exists for the equity securities of the public and private companies in which we invest, we write down the investment to its fair value and recognize the related write-down as an investment loss. Furthermore, when the strategic objectives of an investment have been achieved, or if the investment or business diverges from our strategic objectives, we may decide to dispose of the investment. Our investments in non-marketable equity securities of private companies are not liquid, and we may not be able to dispose of these investments on favorable terms or at all. The occurrence of any of these events could negatively affect our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

At December 30, 2006, our major facilities consisted of:

(Square Feet in Millions)

United States

Total

		Other Countries	
Owned facilities ¹	27.9	13.2	41.1
Leased facilities ²	2.2	3.4	5.6
Total facilities	30.1	16.6	46.7

¹ Leases on portions of the land used for these facilities expire at varying dates through 2062.

² These leases expire at varying dates through 2021 and generally include renewals at our option.

Table of Contents

Our principal executive offices are located in the U.S. The majority of our wafer fabrication and research and development activities are also located within the U.S. Outside the U.S., we have wafer fabrication at our facilities in Ireland and Israel. The majority of our assembly and test facilities are located overseas, specifically in Malaysia, the Philippines, China, and Costa Rica. In addition, we have sales and marketing offices located worldwide. These facilities are generally located near major concentrations of users. We also plan to build a new assembly and test facility in Vietnam, which is expected to begin production in 2009. This facility will have more square footage than our current assembly and test facilities, which will enable us to take advantage of greater efficiencies of scale.

With the exception of our fabrication facility in Colorado, which we have placed for sale (see Note 11: Restructuring and Asset Impairment Charges in Part II, Item 8 of this Form 10-K), 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.

We do not identify or allocate assets by operating segment. For information on net property, plant and equipment by country, see Note 20: Operating Segment and Geographic Information in Part II, Item 8 of this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

A. Tax Matters

In connection with the regular examination of Intel's tax returns for the years 1999 through 2005, the IRS formally assessed, in 2005 and 2006, certain adjustments to the amounts reflected by Intel on those returns as a tax benefit for its export sales. The company does not agree with these adjustments and has appealed the assessments. If the IRS prevails in its position, Intel's federal income tax due for 1999 through 2005 would increase by approximately \$2.2 billion, plus interest. In addition, the IRS will likely make a similar claim for 2006, and if the IRS prevails, income tax due for 2006 would increase by approximately \$200 million, plus interest.

Although the final resolution of the adjustments is uncertain, based on currently available information, management believes that the ultimate outcome will not have a material adverse effect on the company's financial position, cash flows, or overall trends in results of operations. There is the possibility of a material adverse impact on the results of operations for the period in which the matter is ultimately resolved, if it is resolved unfavorably, or in the period in which an unfavorable outcome becomes probable and reasonably estimable.

B. Litigation

Intel currently is a party to various legal proceedings, including those noted below. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position, cash flows, or overall trends in results of operations, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or, in cases for which injunctive relief is sought, an injunction prohibiting Intel from selling one or more products. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the business or results of operations for the period in which the ruling occurs or future periods.

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

In June 2005, AMD filed a complaint in the United States District Court for the District of Delaware alleging that Intel and Intel's Japanese subsidiary engaged in various actions in violation of the Sherman Act and the California Business and Professions Code, including providing secret and discriminatory discounts and rebates and intentionally

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

Table of Contents

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

*Barbara's Sales, et al. v. Intel Corporation, Gateway Inc., Hewlett-Packard Company and HPDirect, Inc.
Third Judicial Circuit Court, Madison County, Illinois*

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

*AmberWave Systems Corporation v. Intel Corporation
United States District Court for the District of Delaware*

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

*Transmeta Corporation v. Intel Corporation
United States District Court for the District of Delaware*

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

ITEM SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

4.

None.

Table of Contents**PART II****ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
5. AND ISSUER PURCHASES OF EQUITY SECURITIES**

Information regarding the market price range of Intel common stock and dividend information may be found in Financial Information by Quarter (Unaudited) in Part II, Item 8 of this Form 10-K. Additional information concerning dividends may be found in the following sections of this Form 10-K: Selected Financial Data in Part II, Item 6 and Consolidated Statements of Cash Flows and Consolidated Statements of Stockholders' Equity in Part II, Item 8.

In each quarter during 2006, we paid a cash dividend of \$0.10 per common share, for a total of \$0.40 for the year (\$0.08 each quarter during 2005 for a total of \$0.32 for the year). We have paid a cash dividend in each of the past 57 quarters. In January 2007, our Board of Directors declared a cash dividend of \$0.1125 per common share for the first quarter of 2007. The dividend is payable on March 1, 2007 to stockholders of record on February 7, 2007.

As of February 16, 2007, there were approximately 195,000 registered holders of record of Intel's common stock. A substantially greater number of holders of Intel common stock are street name or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

Issuer Purchases of Equity Securities (In Millions, Except Per Share Amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Dollar Value of Shares That May Yet Be Purchased Under the Plans
October 1, 2006 - October 28, 2006	0.4	\$ 21.36	0.4	\$ 17,411
October 29, 2006 - November 25, 2006	6.8	\$ 20.95	6.8	\$ 17,270
November 26, 2006 - December 30, 2006		\$		\$ 17,270
Total	7.2	\$ 20.98	7.2	

The company has an ongoing authorization, as amended in November 2005, from the Board of Directors to repurchase up to \$25 billion in shares of Intel's common stock in open-market or negotiated transactions.

Table of Contents**Stock Performance Graph**

The line graph below compares the cumulative total stockholder return on our common stock with the cumulative total return of the Dow Jones Technology Index and the Standard & Poor's 500 Index for the five fiscal years ended December 30, 2006. The graph and table assume that \$100 was invested on December 28, 2001 (the last day of trading for the fiscal year ended December 29, 2001) in each of our common stock, the Dow Jones Technology Index, and the S&P 500 Index, and that all dividends were reinvested. Dow Jones and Company, Inc. and Standard & Poor's Compustat Services, Inc. furnished this data. Cumulative total stockholder returns for our common stock, the Dow Jones Technology Index, and the S&P 500 Index are based on our fiscal year.

Comparison of Five-Year Cumulative Return for Intel, the Dow Jones Technology Index, and the S&P 500 Index

	2001	2002	2003	2004	2005	2006
Intel Corporation	\$ 100	\$ 52	\$ 100	\$ 76	\$ 82	\$ 67
Dow Jones Technology Index	\$ 100	\$ 61	\$ 90	\$ 92	\$ 95	\$ 105
S&P 500 Index	\$ 100	\$ 77	\$ 98	\$ 110	\$ 115	\$ 134

Table of Contents**ITEM SELECTED FINANCIAL DATA****6.**

Five Years Ended December 30, 2006

(In Millions)	Net Revenue	Gross Margin	Research & Development	Operating Income	Net Income
2006	\$ 35,382	\$ 18,218	\$ 5,873	\$ 5,652	\$ 5,044
2005	\$ 38,826	\$ 23,049	\$ 5,145	\$ 12,090	\$ 8,664
2004	\$ 34,209	\$ 19,746	\$ 4,778	\$ 10,130	\$ 7,516
2003	\$ 30,141	\$ 17,094	\$ 4,360	\$ 7,533	\$ 5,641
2002	\$ 26,764	\$ 13,318	\$ 4,034	\$ 4,382	\$ 3,117

(In Millions, Except Per Share Amounts)	Basic Earnings Per Share	Diluted Earnings Per Share	Weighted Average Diluted Shares Outstanding	Dividends Declared Per Share	Dividends Paid Per Share	Share-Based Compensation ¹
2006	\$ 0.87	\$ 0.86	5,880	\$.40	\$.40	\$ 1,375
2005	\$ 1.42	\$ 1.40	6,178	\$.32	\$.32	\$
2004	\$ 1.17	\$ 1.16	6,494	\$.16	\$.16	\$
2003	\$ 0.86	\$ 0.85	6,621	\$.08	\$.08	\$
2002	\$ 0.47	\$ 0.46	6,759	\$.08	\$.08	\$

(In Millions, Except Employees)	Net Investment in Property, Plant & Equipment	Total Assets	Long-Term Debt	Stockholders Equity	Additions to Property, Plant & Equipment	Employees at Year-End (In Thousands)
2006	\$ 17,602	\$ 48,368	\$ 1,848	\$ 36,752	\$ 5,779	94.1
2005	\$ 17,111	\$ 48,314	\$ 2,106	\$ 36,182	\$ 5,818	99.9
2004	\$ 15,768	\$ 48,143	\$ 703	\$ 38,579	\$ 3,843	85.0
2003	\$ 16,661	\$ 47,143	\$ 936	\$ 37,846	\$ 3,656	79.7
2002	\$ 17,847	\$ 44,224	\$ 929	\$ 35,468	\$ 4,703	78.7

¹ We began recognizing the provisions of SFAS No. 123(R) beginning in fiscal year 2006. See Note 2: Accounting Policies and Note 3: Employee Equity Incentive Plans in Part II, Item 8 of this Form 10-K.

The ratio of earnings to fixed charges for each of the five years in the period ended December 30, 2006 was as follows:

2006	2005	2004	2003	2002
50x	169x	107x	72x	32x

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

Table of Contents**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) by discussing Intel's overall strategy and the strategy for our major operating segments to give the reader an overview of the goals of our business and the direction in which our business and products are moving. The Strategy section is followed by a discussion of the Critical Accounting Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our Results of Operations beginning with an Overview, followed by a comparison of 2006 to 2005, and 2005 to 2004. Following the analysis of our results, we provide an analysis of changes in our balance sheets and cash flows, and discuss our financial condition in the section entitled Liquidity and Capital Resources followed by a discussion of our Contractual Obligations, Off-Balance-Sheet Arrangements, and Equity Incentive Plans. We then conclude this MD&A with our Business Outlook section, discussing our outlook for 2007.

This MD&A should be read in conjunction with the other sections of this Form 10-K, including Part I, Item 1: Business; Part II, Item 6: Selected Financial Data; and Part II, Item 8: Financial Statements and Supplementary Data. The various sections of this MD&A contain a number of forward-looking statements. Words such as expects, goals, plans, believes, continues, may, and variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in the Business Outlook section (see also Risk Factors in Part I, Item 1A of this Form 10-K). Our actual results may differ materially, and these forward-looking statements do not reflect the potential impact of any divestitures, mergers, acquisitions, or other business combinations that had not been completed as of February 21, 2007.

Strategy

Our goal is to be the preeminent provider of semiconductor chips and platform solutions to the worldwide digital economy. As part of our overall strategy to compete in each relevant market segment, we use our core competencies in the design and manufacture of integrated circuits, as well as our financial resources, global presence, and brand recognition.

Our strategy focuses on taking customer needs into account in developing the next generation of products and platforms that will enable new form factors and new usage models for businesses and consumers. We believe that end users, OEMs, third-party vendors, and service providers of computing and communications systems and devices want platform products. We define a platform as a collection of technologies that are designed to work together to provide a better end-user solution than if the ingredients were used separately. Our platforms consist of various products based on standards and initiatives; hardware and software that may include technologies such as HT Technology, Intel VT, and Intel AMT; and services. In developing our platforms, we may include ingredients sold by other companies. The success of our strategy to offer platform solutions is dependent on our ability to select and incorporate ingredients that customers value, and to market the platforms effectively. We have a tiered brand strategy that addresses our customer needs within various market price points.

We also believe that users of computing and communications systems and devices want improved overall performance and/or improved energy-efficient performance. Improved overall performance can include faster processing performance and other improved capabilities such as multithreading and multitasking. Performance can

also be improved through enhanced connectivity, security, manageability, utilization, reliability, ease of use, and interoperability among devices. Improved energy-efficient performance involves balancing the addition of these types of improved performance factors with the power consumption of the platform. Lower power consumption may reduce system heat output, provide power savings, and reduce the total cost of ownership for the end user. It is our goal to incorporate these improvements in our various products and platforms to meet end-user demands. In line with these efforts, we are focusing on further development of multi-core microprocessors. Multi-core microprocessors contain two or more processor cores, which enable improved multitasking and energy-efficient performance. Our strategy for developing processors with improved performance is to synchronize the introduction of new microarchitecture with improvements in silicon process technology. We plan to introduce a new microarchitecture approximately every two years and ramp the next generation of silicon process technology in the intervening years. This coordinated schedule allows us to develop and introduce new products based on a common microarchitecture quickly, without waiting for the next generation of silicon process technology.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

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

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

Digital Enterprise Group

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

Our strategy for the desktop computing market segment is to introduce platforms with improved energy-efficient performance, tailored to the needs of different market segments. Our primary platform for business desktop PCs is the Intel vPro technology-based platform. Platforms based on Intel vPro technology currently include the Intel Core 2 Duo processor, the Intel Q965 Express Chipset, and the Intel 82566DM Gigabit Network Connection. For high-end desktop platforms, we offer the Intel Core 2 Quad processor, the Intel Core 2 Duo processor, the Intel Pentium D processor, and the Intel Pentium 4 processor supporting HT Technology. For lower price-point desktop platforms, we offer the Intel Celeron D processor and the Intel Celeron processor. We also offer chipsets designed and optimized for use in desktop platforms.

Our strategy for the enterprise computing market segment is to provide platforms that increase end-user value in the areas of performance, energy efficiency, utilization, manageability, reliability, and security for entry-level to high-end servers and workstations. Our Intel Xeon processor family of products supports a range of entry-level to high-end technical and commercial computing applications. These products have been enhanced with Intel 64 architecture, our 64-bit extension technology. Compared to our Intel Xeon processor family, our Intel Itanium processor family, which is based on Intel's 64-bit architecture and includes the Intel Itanium 2 processor, generally supports an even higher level of reliability and computing performance for data processing, the handling of high transaction volumes, and other compute-intensive applications for enterprise-class servers, as well as supercomputing solutions. We also offer chipsets, network controllers, direct-attached storage I/O controllers, and RAID (redundant array of independent disks) solutions designed and optimized for use in both server and workstation platforms.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

For the communications infrastructure, we deliver products that are basic building blocks for modular communications platforms. These products include advanced programmable network processors, based on Intel XScale technology, used to manage and direct data moving across the Internet and corporate networks. The agreement to sell certain assets of the communications and application processor business and license rights to Intel XScale technology does not impact the communication infrastructure product offerings within DEG. See Note 14: Acquisitions and Divestitures in Part II, Item 8 of this Form 10-K. We also offer embedded microprocessors that can be used for modular communications platform applications.

Mobility Group

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

Our strategy for notebook PCs is to deliver platforms designed to optimize performance, battery life, form factor, and wireless connectivity. For high-end mobility platforms, we offer the Intel Core 2 Duo, the Intel Core Duo, the Intel Core Solo, and the Intel Pentium M processors. For lower price-point mobile platforms, we offer the Intel Celeron M and the Mobile Intel Celeron processors. We also offer Intel® Express Chipsets, with and without integrated graphics capability, which are designed for the notebook market segment. Additionally, we offer wireless connectivity solutions based on the Institute of Electrical and Electronics Engineers (IEEE) 802.11 industry standard as well the IEEE 802.16 industry standard, commonly known as WiMAX. The primary platforms offered by the Mobility Group are the Intel Centrino Duo mobile technology platform and the Intel Centrino mobile technology platform. The Intel Centrino mobile technology consists of a mobile processor and a mobile chipset as well as a wireless network connection that together are designed to improve performance, battery life, form factor, and wireless connectivity. The Intel Centrino Duo mobile technology platform, launched in January 2006, expands on the capabilities of Intel Centrino by increasing multitasking performance and includes power-saving features to further improve battery life, and contains a flexible network connection.

We are also developing energy-efficient platforms for the ultra-mobile market segment that are designed primarily for mobile consumption of digital content and Internet access.

Flash Memory Group

The strategy for the Flash Memory Group is to provide advanced flash memory products for cellular phones, memory cards, digital audio players, and embedded form factors. We offer a broad range of memory densities, leading-edge packaging technology, and high-performance functionality. In support of our strategy, we offer NOR flash memory products such as Intel StrataFlash wireless memory for advanced mobile phone designs. In addition to product offerings for cellular customers, we offer NOR flash memory products that meet the needs of other market segments, such as the embedded market segment. The embedded market segment includes set-top boxes, networking products, DVD players, DSL and cable modems, and other devices. With the formation of IMFT, a NAND flash memory manufacturing company, with Micron in January 2006, we have been selling products manufactured by IMFT that are currently being used in memory cards, digital audio players, and cellular phones.

We offer a variety of stacked memory products, including products based on our NOR flash, as well as our NOR flash plus RAM and/or NAND flash, which in some instances we purchase from third-party vendors. Stacking of memory

products refers to packaging several memory chips together.

In the second quarter of 2006, we announced changes to the organizational structure within the Flash Memory Group operating segment, designed to consolidate NOR manufacturing, research and development, and product support into the Flash Memory Group. These organizational changes were designed to give the Flash Memory Group more flexibility by giving it greater control over its own cost structure and allowing for better management of product development and manufacturing. These changes do not change the revenue or costs attributed to the Flash Memory Group operating segment.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)*****Digital Home Group***

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

Digital Health Group

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

Channel Platforms Group

The strategy for the Channel Platforms Group is to expand Intel's worldwide presence and success in global markets by growing both the broad channel as well as local OEMs. The Channel Platforms Group tailors mainstream platforms to meet local market requirements, and develops and enables unique solutions to meet the needs of users in the developing world.

Critical Accounting Estimates

The methods, estimates, and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements, which we discuss under the heading "Results of Operations" following this section of our MD&A. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Our most critical accounting estimates include the valuation of non-marketable equity securities, which impacts net gains (losses) on equity securities when we record impairments; the recognition and measurement of current and deferred income tax assets and liabilities, which impact our tax provision; the assessment of recoverability of long-lived assets, which primarily impacts gross margin or operating expenses when we record asset impairments or accelerate their depreciation; the valuation of inventory, which impacts gross margin; and the valuation and recognition of share-based compensation, which impact gross margin, research and development expenses, and marketing, general and administrative expenses. Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other policies that we

consider key accounting policies, such as those for revenue recognition, including the deferral of revenue on sales to distributors; however, these policies typically do not require us to make estimates or judgments that are difficult or subjective.

Non-Marketable Equity Securities

We typically invest in non-marketable equity securities of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies whose products or technologies may directly support an Intel product or initiative. At December 30, 2006, the carrying value of our portfolio of strategic investments in non-marketable equity securities, excluding equity derivatives, totaled \$2.8 billion (\$561 million at December 31, 2005), which includes our investments in IMFT and Clearwire.

Table of Contents

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

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

We review our investments quarterly for indicators of impairment; however, for non-marketable equity securities, the impairment analysis requires significant judgment to identify events or circumstances that would likely have a significant adverse effect on the fair value of the investment. The indicators that we use to identify those events or circumstances include (a) the investee's revenue and earnings trends relative to predefined milestones and overall business prospects; (b) the technological feasibility of the investee's products and technologies; (c) the general market conditions in the investee's industry or geographic area, including adverse regulatory or economic changes; (d) factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, and the rate at which the investee is using its cash; and (e) the investee's receipt of additional funding at a lower valuation.

Investments identified as having an indicator of impairment are subject to further analysis to determine if the investment is other than temporarily impaired, in which case the investment is written down to its impaired value and a new cost basis is established. When an investee is not considered viable from a financial or technological point of view, we write off the investment, since we consider the estimated fair value to be nominal. If an investee obtains additional funding at a valuation lower than our carrying amount or requires a new round of equity funding to stay in operation and the new funding does not appear imminent, we presume that the investment is other than temporarily impaired, unless specific facts and circumstances indicate otherwise. Impairments of investments in our portfolio of non-marketable equity securities were \$79 million in 2006 (\$103 million in 2005 and \$115 million in 2004). Over the past 12 quarters, impairments of investments in our portfolio of non-marketable equity securities have ranged between \$10 million and \$41 million per quarter.

Income Taxes

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

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

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional tax payments are probable. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in

which we determine that the liability is no longer necessary. This may occur for a variety of reasons, such as the expiration of the statute of limitations on a particular tax return or the signing of a final settlement agreement with the relative tax authority. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of SFAS No. 109. The provisions are effective beginning in the first quarter of 2007. See *Note 2: Accounting Policies* in Part II, Item 8 of this Form 10-K for further discussion.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)*****Long-Lived Assets***

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

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific semiconductor manufacturing tools and building improvements. When we determine that the useful lives of assets are shorter than we had originally estimated, and there are sufficient cash flows to support the carrying value of the assets, we accelerate the rate of depreciation charges in order to fully depreciate the assets over their new shorter useful lives. Impairments and accelerated depreciation of long-lived assets were approximately \$335 million during 2006 (approximately \$20 million in 2005 and \$50 million in 2004). The amount in 2006 included \$317 million of asset impairment charges related to our communications and application processor business. For further discussion on these asset impairment charges, see Note 11: Restructuring and Asset Impairment Charges in Part II, Item 8 of this Form 10-K.

Inventory

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. During the second quarter of 2006, we completed a demand forecast accuracy analysis. As a result, the demand horizon now includes additional weeks of the demand forecast period for certain products, compared to prior years, and continues to include a review of product-specific facts and circumstances. This change did not have a significant impact on gross margin in 2006. The demand forecast is also a direct input in the development of our short-term manufacturing plans, to help enable consistency between inventory valuation and build decisions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of the customer base, the stage of the product life cycle of our products, consumer confidence, and customer acceptance of our products as well as an assessment of the selling price in relation to the product cost. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, or if we fail to accurately forecast the demand, we could be required to write down additional inventory, which would have a negative impact on our gross margin.

Share-Based Compensation

In the first quarter of 2006, we adopted SFAS No. 123(R), which requires the measurement at fair value and recognition of compensation expense for all share-based payment awards. Total share-based compensation during

2006 was \$1.4 billion. Determining the appropriate fair-value model and calculating the fair value of employee stock options and rights to purchase shares under stock purchase plans at the date of grant requires judgment. We use the Black-Scholes option pricing model to estimate the fair value of these share-based awards consistent with the provisions of SFAS No. 123(R). Option pricing models, including the Black-Scholes model, also require the use of input assumptions, including expected volatility, expected life, expected dividend rate, and expected risk-free rate of return. The assumptions for expected volatility and expected life are the two assumptions that significantly affect the grant date fair value. The expected dividend rate and expected risk-free rate of return are not significant to the calculation of fair value.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

We use implied volatility based on options freely traded in the open market, as we believe implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. In determining the appropriateness of implied volatility, we considered: the volume of market activity of freely traded options, and determined that there was sufficient market activity; the ability to reasonably match the input variables of options freely traded to those of options granted by the company, such as the date of grant and the exercise price, and determined that the input assumptions were comparable; and the length of term of freely traded options used to derive implied volatility, which is generally one to two years, and determined that the length of term was sufficient. We use the simplified calculation of expected life described in the SEC's Staff Accounting Bulletin 107, due to changes in the vesting terms and contractual life of current option grants compared to our historical grants. If we determined that another method used to estimate expected volatility or expected life was more reasonable than our current methods, or if another method for calculating these input assumptions was prescribed by authoritative guidance, the fair value calculated for share-based awards could change significantly. Higher volatility and longer expected lives result in an increase to share-based compensation determined at the date of grant. The effect that changes in the volatility and the expected life would have on the weighted average fair value of grants and the increase in total fair value during 2006 was as follows:

	Weighted Average Fair Value Per Share	2006 Increase in Total Fair Value¹ (In Millions)
As reported	\$ 5.21	
Hypothetical:		
Increase expected volatility by 5 percentage points ²	\$ 5.92	\$ 36
Increase expected life by 1 year	\$ 5.68	\$ 24

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

² For example, an increase from 27% reported volatility for 2006 to a hypothetical 32% volatility.

In addition, SFAS No. 123(R) requires us to develop an estimate of the number of share-based awards that will be forfeited due to employee turnover. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation, as the cumulative effect of adjusting the rate for all expense amortization after January 1, 2006 is recognized in the period the forfeiture estimate is changed. We estimate and adjust forfeiture rates based on a quarterly review of recent forfeiture activity and expected future employee turnover. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the expense recognized in the financial statements. These adjustments affect our gross margin; research and development expenses; and marketing, general and administrative expenses. The effect of forfeiture adjustments in 2006 was insignificant. Cumulative adjustments

are recorded to the extent that the related expense is recognized in the financial statements, beginning with implementation in the first quarter of 2006. Therefore, we expect the potential impact from cumulative forfeiture adjustments to increase in future periods. The expense that we recognize in future periods could also differ significantly from the current period and/or our forecasts due to adjustments in the assumed forfeiture rates.

Results of Operations

Overview

Fiscal year 2006 was a challenging year driven by a strong competitive environment. Lower microprocessor average selling prices significantly impacted our revenue and gross margin. Our gross margin toward the end of the year was also impacted by higher unit costs resulting from the ramp of dual-core microprocessors and charges from the under-utilization of our 90-nanometer facilities. Factory under-utilization charges are expected to continue to impact our gross margin during the first quarter of 2007, and start-up costs associated with our 45-nanometer process technology are expected to impact our gross margin during the first half of 2007. We continued to see a mix shift in microprocessor revenue from desktop to mobile and ended the year with fourth-quarter mobile microprocessor revenue surpassing desktop microprocessor revenue for the first time. Results for 2006 included share-based compensation charges of \$1.4 billion, gains on divestitures of \$612 million, and restructuring and asset impairment charges of \$555 million.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Our spending is trending lower going into 2007 as a result of our ongoing program to improve operational efficiency and reduce ongoing costs across the company. Through ongoing attrition, divestitures, and employee terminations, we ended the year with our employee headcount at 94,100, down from 102,500 at mid-year, and expect our headcount to continue to decline to 92,000 by the middle of 2007. We recognized \$238 million in restructuring charges related to employee severance and benefit arrangements. In addition, we have taken actions to focus on our core businesses and have completed three divestitures. We recognized \$103 million in tool impairments associated with one of the divestitures. In addition, we have placed for sale a fabrication facility in Colorado that resulted in an impairment charge of \$214 million. Overall, our ongoing program to improve operational efficiency and results is expected to generate cost savings of \$2 billion in 2007, and \$3 billion in 2008, of which an estimated \$600 million in gross annual savings is a result of current-year restructuring charges related to employee severance and benefit arrangements. A portion of the overall cost savings, such as better utilization of assets, reduced spending, and organizational efficiencies, will not result in restructuring charges.

Outstanding new products, leadership in manufacturing technology, comprehensive cost savings, and disciplined execution have built a foundation for 2007. We continue to drive technology advancements, and in 2006 we ramped our 65-nanometer process technology, introduced the Intel Core microarchitecture, and ended the year with dual-core microprocessors accounting for over half of our fourth-quarter shipments. Additionally, in the fourth quarter, we began shipping quad-core microprocessors. Looking forward to 2007, we expect to launch our next generation of Intel Centrino mobile technology later in the first half of 2007, and microprocessors using 45-nanometer process technology are scheduled for production in the second half of 2007.

From a financial condition perspective, we ended the year with \$8.9 billion in cash and short-term investments, and returned \$4.6 billion to stockholders through stock repurchases and \$2.3 billion as dividends in 2006.

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

	2006		2005		2004	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
(Dollars in Millions, Except Per Share Amounts)						
Net revenue	\$ 35,382	100.0%	\$ 38,826	100.0%	\$ 34,209	100.0%
Cost of sales	17,164	48.5%	15,777	40.6%	14,463	42.3%
Gross margin	18,218	51.5%	23,049	59.4%	19,746	57.7%
Research and development	5,873	16.6%	5,145	13.3%	4,778	14.0%
Marketing, general and administrative	6,096	17.2%	5,688	14.7%	4,659	13.6%
Restructuring and asset impairment charges	555	1.6%				
Amortization of acquisition-related intangibles and costs	42	0.1%	126	0.3%	179	0.5%
Operating income	5,652	16.0%	12,090	31.1%	10,130	29.6%
Gains (losses) on equity securities, net	214	0.6%	(45)	(0.1)%	(2)	
Interest and other, net	1,202	3.4%	565	1.5%	289	0.9%

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Income before taxes	7,068	20.0%	12,610	32.5%	10,417	30.5%
Provision for taxes	2,024	5.7%	3,946	10.2%	2,901	8.5%
Net income	\$ 5,044	14.3%	\$ 8,664	22.3%	\$ 7,516	22.0%
Diluted earnings per common share	\$ 0.86		\$ 1.40		\$ 1.16	

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Effective January 1, 2006, the company adopted the provisions of SFAS No. 123(R), which is discussed in Note 2: Accounting Policies in Part II, Item 8 of this Form 10-K. The following table summarizes the effects of share-based compensation resulting from the application of SFAS No. 123(R):

(In Millions)	2006	2005	2004
Cost of sales	\$ 349	\$	\$
Research and development	487		
Marketing, general and administrative	539		
Share-based compensation effects in income before taxes	1,375		
Income taxes	(388)		
Net share-based compensation effects in net income	\$ 987	\$	\$

The following table sets forth revenue information of geographic regions for the periods indicated:

(Dollars in Millions)	2006		2005		2004	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
Asia-Pacific	\$ 17,477	49%	\$ 19,330	50%	\$ 15,380	45%
Americas	7,512	21%	7,574	19%	7,965	23%
Europe	6,587	19%	8,210	21%	7,755	23%
Japan	3,806	11%	3,712	10%	3,109	9%
Total	\$ 35,382	100%	\$ 38,826	100%	\$ 34,209	100%

Our net revenue was \$35.4 billion in 2006, a decrease of 9% compared to 2005. Substantially all of the decrease was due to significantly lower average selling prices of microprocessors. Fiscal year 2006 was a 52-week fiscal year in contrast to fiscal year 2005, which was a 53-week fiscal year.

Revenue in the Asia-Pacific region decreased 10% and revenue in the Europe region decreased 20% compared to 2005. These decreases were slightly offset by revenue in Japan, which increased slightly compared to 2005. Revenue in the Americas region was approximately flat compared to 2005. Mature and emerging markets both declined in 2006 compared to 2005. The decrease within mature markets occurred in the Europe and Asia-Pacific regions, and a substantial majority of the decrease within the emerging markets occurred in the Europe and Asia-Pacific regions.

Our overall gross margin dollars for 2006 were \$18.2 billion, a decrease of \$4.8 billion, or 21%, compared to 2005. Our overall gross margin percentage decreased to 51.5% in 2006 from 59.4% in 2005. The gross margin percentage for the Digital Enterprise Group and the Mobility Group were both lower in 2006 compared to 2005. A mix shift of our total revenue to the Mobility Group, which has a higher gross margin percentage, slightly offset these decreases to

the overall gross margin. A substantial majority of our overall gross margin dollars in 2006 and 2005 was derived from the sale of microprocessors. The 2006 gross margin included the impact of \$349 million of share-based compensation, which we began recognizing in 2006. The 2005 gross margin was affected by a litigation settlement agreement with MicroUnity, Inc. in which we recorded a \$140 million charge to cost of sales, of which \$110 million was allocated to the Digital Enterprise Group and \$30 million was allocated to the Mobility Group. See Business Outlook later in this section for a discussion of gross margin expectations.

Our net revenue for 2005 was \$38.8 billion, an increase of \$4.6 billion, or 13.5%, compared to 2004. This increase was primarily due to higher revenue from sales of mobile microprocessors and higher chipset revenue. Fiscal year 2005 was a 53-week fiscal year in contrast to fiscal year 2004, which was a 52-week fiscal year.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

In 2005, the Asia-Pacific region's revenue was approximately 50% of our total revenue, and it was our fastest growing region, increasing 26% compared to 2004 and reflecting the movement of more of our customers' PC supply chains to Asia. This movement in the supply chain negatively affected our sales in the Americas region, which decreased 5% compared to 2004. Japan revenue increased 19% and Europe revenue increased 6% during 2005 compared to 2004. We saw growth in both mature and emerging markets in 2005 compared to 2004.

Overall gross margin dollars for 2005 were \$23.0 billion, an increase of \$3.3 billion, or 17%, compared to 2004. Our overall gross margin percentage increased to 59.4% in 2005 from 57.7% in 2004. The overall gross margin percentage was positively affected by a mix shift of our total revenue to the Mobility Group, which has a higher gross margin percentage. The gross margin percentages for the Digital Enterprise Group and Flash Memory Group were higher and the gross margin percentage for the Mobility Group was lower in 2005 compared to 2004. A substantial majority of our overall gross margin dollars in 2005 and 2004 was derived from the sale of microprocessors. As a result of a litigation settlement agreement with MicroUnity, we recorded a \$140 million charge to cost of sales in 2005, of which \$110 million was allocated to the Digital Enterprise Group and \$30 million was allocated to the Mobility Group. The 2004 gross margin was affected by a litigation settlement with Intergraph Corporation in which we recorded a \$162 million charge to cost of sales, of which \$120 million was allocated to the Digital Enterprise Group and \$42 million was allocated to the Mobility Group.

Digital Enterprise Group

The revenue and operating income for the Digital Enterprise Group (DEG) for the three years ended December 30, 2006 were as follows:

(In Millions)	2006	2005	2004
Microprocessor revenue	\$ 14,606	\$ 19,412	\$ 19,426
Chipset, motherboard, and other revenue	5,270	5,725	5,352
Net revenue	\$ 19,876	\$ 25,137	\$ 24,778
Operating income	\$ 4,267	\$ 9,020	\$ 8,856

Net revenue for the DEG operating segment decreased significantly, by \$5.3 billion, or 21%, in 2006 compared to 2005. The decline in net revenue was mostly due to a significant decline in microprocessor revenue, and to a lesser extent, a decline in chipset, motherboard, and other revenue. The significant decline in microprocessor revenue was due to lower average selling prices and unit sales of desktop microprocessors. Enterprise microprocessor revenue increased in 2006. The decline in chipset, motherboard, and other revenue was due equally to lower chipset revenue and motherboard revenue. Microprocessors within DEG include microprocessors designed for the desktop and enterprise computing market segments, previously included within the former Intel Architecture business operating segment, as well as embedded microprocessors. Revenue from network processors, which are based on our Intel XScale technology, is included in chipset, motherboard, and other revenue above.

Operating income decreased significantly by \$4.8 billion, or 53%, in 2006 compared to 2005. Substantially all of the decrease was due to the revenue decline. Higher microprocessor unit costs, along with \$210 million of higher factory under-utilization charges, were offset by approximately \$540 million of lower start-up costs. Unit costs were higher in

2006 compared to 2005 due primarily to a mix shift to dual-core microprocessors. Results for 2005 included a charge related to a settlement agreement with MicroUnity.

For 2005, revenue for the DEG operating segment was approximately flat compared to 2004. Revenue from sales of microprocessors was approximately flat, with slightly higher unit sales being offset by slightly lower average selling prices. Revenue from sales of server microprocessors in 2005 was negatively affected by the highly competitive server market. Chipset, motherboard, and other revenue was higher, primarily due to higher average selling prices of chipsets.

Operating income was also approximately flat, at \$9.0 billion in 2005 compared to \$8.9 billion in 2004. The operating income for DEG was positively affected by lower microprocessor unit costs and higher chipset revenue. These improvements were offset by approximately \$380 million of higher start-up costs in 2005, primarily related to our 65-nanometer process technology. Products based on our 65-nanometer process technology began shipping in the fourth quarter of 2005. Although revenue was flat, operating expenses increased in 2005, which negatively affected operating income. Both periods were negatively affected by litigation settlement agreements. Results for 2005 included a charge related to a settlement agreement with MicroUnity, and results for 2004 included a charge related to a settlement agreement with Intergraph.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)*****Mobility Group***

The revenue and operating income for the Mobility Group (MG) for the three years ended December 30, 2006 were as follows:

(In Millions)	2006	2005	2004
Microprocessor revenue	\$ 9,212	\$ 8,704	\$ 5,667
Chipset and other revenue	3,097	2,427	1,314
Net revenue	\$ 12,309	\$ 11,131	\$ 6,981
Operating income	\$ 4,993	\$ 5,334	\$ 2,832

Net revenue for the MG operating segment increased by \$1.2 billion, or 11%, in 2006 compared to 2005. Microprocessor revenue increased by \$508 million, or 6%, in 2006 compared to 2005, while chipsets and other revenue increased by \$670 million, or 28%, in 2006 compared to 2005. The increase in microprocessor revenue was due to higher unit sales, largely offset by lower average selling prices. The majority of the increase in chipset and other revenue was due to higher revenue from sales of chipsets, and to a lesser extent, higher revenue from sales of wireless connectivity products. Sales of these products increased primarily due to the Intel Centrino Duo mobile technology platform. Revenue from application and cellular baseband processors is included in chipset and other revenue above. In the fourth quarter of 2006, we divested certain assets of the business line that included application and cellular baseband processors used in handheld devices. See Note 14: Acquisitions and Divestitures in Part II, Item 8 of this Form 10-K.

Operating income decreased by \$341 million, or 6%, in 2006 compared to 2005. The decline was primarily caused by higher operating expenses. The effects of higher revenue were offset by higher unit costs for microprocessors. Start-up costs were approximately \$170 million lower in 2006 compared to 2005.

For 2005, revenue for the MG operating segment increased by \$4.15 billion, or 59%, compared to 2004. This increase was primarily due to significantly higher revenue from sales of microprocessors, which increased \$3.0 billion, or 54%, in 2005 compared to 2004, reflecting the continued growth in the notebook market segment. Increased use of microprocessors designed specifically for mobile platforms in notebook computers also contributed to the higher revenue. The higher revenue from sales of microprocessors was due to significantly higher unit sales, partially offset by lower average selling prices, primarily due to higher unit sales of the Celeron M processor, our value mobile processor. Revenue from sales of chipsets and wireless connectivity products also increased significantly in 2005 compared to 2004, primarily due to the success of Intel Centrino mobile technology.

Operating income increased to \$5.3 billion in 2005 from \$2.8 billion in 2004. The significant increase in operating income was primarily due to higher revenue. In addition, operating expenses for the MG operating segment did not increase as fast as revenue, and microprocessor unit costs were lower. These increases in operating income were partially offset by approximately \$170 million of higher start-up costs in 2005, primarily related to our 65-nanometer process technology.

Flash Memory Group

The revenue and operating loss for the Flash Memory Group (FMG) for the three years ended December 30, 2006 were as follows:

(In Millions)	2006	2005	2004
Net Revenue	\$ 2,163	\$ 2,278	\$ 2,285
Operating income (loss)	\$ (555)	\$ (154)	\$ (149)

Net revenue for the FMG operating segment decreased by \$115 million, or 5%, in 2006 compared to 2005. This decrease was primarily due to lower average selling prices, partially offset by higher royalty receipts. In 2006, we began shipping NAND flash memory products manufactured by IMFT. Operating loss increased to \$555 million in 2006, from \$154 million in 2005. The increase was primarily due to higher costs related to our new NAND flash memory business. Lower revenue for our NOR flash business was offset by lower unit costs and lower start-up costs.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

For 2005, revenue for the FMG operating segment remained approximately flat at \$2.3 billion compared to 2004. Revenue was positively affected by higher unit sales and negatively affected by lower average selling prices. Operating loss remained approximately flat in 2005 at \$154 million, compared to \$149 million in 2004. The operating loss was positively affected by lower unit costs and negatively affected by higher operating expenses.

Share-Based Compensation

Share-based compensation totaled \$1.4 billion in 2006, compared to zero in 2005 and 2004. We adopted SFAS No. 123(R) under the modified prospective transition method, effective beginning in the first quarter of 2006. Prior to adoption of SFAS No. 123(R), we accounted for our equity incentive plans under the intrinsic value recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) and related interpretations. Accordingly, no share-based compensation, other than insignificant amounts of acquisition-related share-based compensation, was recognized in net income.

As of December 30, 2006, unrecognized share-based compensation costs and the weighted average period over which the costs are expected to be recognized were as follows:

	Unrecognized Share-Based Compensation Costs	Weighted Average Period
Stock options	\$ 1.1 billion	1.1 years
Restricted stock units	\$ 380 million	1.8 years
Stock purchase plan	\$ 19 million	1 month

Share-based compensation charges are included in the all other category for segment reporting purposes.

Operating Expenses

Operating expenses for the three years ended December 30, 2006 were as follows:

(In Millions)	2006	2005	2004
Research and development (includes share-based compensation of \$487 million in 2006 and zero in 2005 and 2004)	\$ 5,873	\$ 5,145	\$ 4,778
Marketing, general and administrative (includes share-based compensation of \$539 million in 2006 and zero in 2005 and 2004)	\$ 6,096	\$ 5,688	\$ 4,659
Restructuring and asset impairment charges	\$ 555	\$	\$
Amortization of acquisition-related intangibles and costs	\$ 42	\$ 126	\$ 179

Research and Development. Research and development spending increased \$728 million, or 14%, in 2006 compared to 2005, and increased \$367 million, or 8%, in 2005 compared to 2004. The increase in 2006 compared to 2005 was

primarily due to share-based compensation of \$487 million, and to a lesser extent, higher development costs driven by our next-generation 45-nanometer manufacturing process technology. Lower profit-dependent compensation expenses partially offset these increases. The increase in 2005 compared to 2004 was primarily due to higher headcount and profit-dependent compensation expenses, partially offset by lower expenses related to development for our 65-nanometer manufacturing process technology. Fiscal year 2005 included 53 weeks.

Marketing, General and Administrative. Marketing, general and administrative expenses increased \$408 million, or 7%, in 2006 compared to 2005, and increased \$1.0 billion, or 22%, in 2005 compared to 2004. The increase in 2006 compared to 2005 was primarily due to share-based compensation of \$539 million, and to a lesser extent, higher headcount. Partially offsetting these increases were lower marketing program spending and lower profit-dependent compensation expenses. The increase in 2005 compared to 2004 was primarily due to higher marketing program spending, higher headcount, and higher profit-dependent compensation expenses as well as the extra work week.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Research and development along with marketing, general and administrative expenses were 34% of net revenue in 2006 and 28% of net revenue in 2005 and 2004.

Restructuring and Asset Impairment Charges. We are undertaking a restructuring plan designed to improve operational efficiency and financial results. In the third quarter of 2006, management approved several actions related to this plan that were recommended by the company's structure and efficiency task force. A portion of these activities involves cost savings or other actions that do not result in restructuring charges, such as better utilization of assets, reduced spending, and organizational efficiencies. The efficiency program includes headcount targets for various groups within the company, and we expect these targets to be met through ongoing employee attrition, divestitures, and employee terminations.

During 2006, we incurred \$238 million of restructuring charges related to employee severance and benefit arrangements for approximately 4,800 employees, of which approximately 4,100 employees had left the company as of December 30, 2006. A substantial majority of these employee terminations occurred within marketing, manufacturing, information technology, and human resources. Additionally, we completed the divestiture of the assets of three businesses in 2006 concurrently with the ongoing execution of the efficiency program. See Note 14: Acquisitions and Divestitures in Part II, Item 8 of this Form 10-K for further details. In connection with the divestiture of certain assets of the communications and application processor business, we recorded impairment charges of \$103 million related to the write-down of manufacturing tools to their fair value, less the cost to dispose of the assets. The fair value was determined using a market-based valuation technique. In addition, as a result of both this divestiture and a subsequent assessment of our worldwide manufacturing capacity operations, management placed for sale its fabrication facility in Colorado Springs, Colorado. This plan resulted in an impairment charge of \$214 million to write down to fair value the land, building, and equipment asset grouping that has been principally used to support the communications and application processor business. The fair market value of the asset grouping was determined using various valuation techniques.

The following table summarizes the restructuring and asset impairment activity for 2006:

(In Millions)	Employee Severance and Benefit	Asset Impairment	Total
Accrued restructuring balance as of December 31, 2005	\$	\$	\$
Additional accruals	238	317	555
Adjustments			
Cash payments	(190)		(190)
Non-cash settlements		(317)	(317)
Accrued restructuring balance as of December 30, 2006	\$ 48	\$	\$ 48

The restructuring and asset impairment charges above have been reflected separately as restructuring and asset impairment charges on the consolidated statements of income. The restructuring accrual balance relates to severance benefits that are expected to be paid within the next 12 months. As such, the restructuring accrual is recorded as a current liability within accrued compensation and benefits on the consolidated balance sheets. No restructuring charges were incurred in 2005 or 2004. We expect to record additional employee severance and benefit charges of approximately \$50 million in the first quarter of 2007. In addition, we may incur charges in the future under this restructuring for facility-related or other exit activities.

We estimate that the current-year employee severance and benefit charges will result in gross annual savings of approximately \$600 million. We expect these savings to be realized in approximately equal amounts within cost of sales; research and development; and marketing, general and administrative expenses. See Note 11: Restructuring and Asset Impairment Charges in Part II, Item 8 of this Form 10-K. See also the risks described in Risk Factors in Part I, Item 1A of this Form 10-K.

Amortization of Acquisition-Related Intangibles and Costs. Amortization of acquisition-related intangibles and costs was \$42 million in 2006 (\$126 million in 2005 and \$179 million in 2004). The decreased amortization each year compared to the previous year was primarily due to a portion of the intangibles related to prior acquisitions becoming fully amortized.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)*****Gains (losses) on Equity Securities, Interest and Other, and Provision for Taxes***

Gains (losses) on equity securities, net; interest and other, net; and provision for taxes for the three years ended December 30, 2006 were as follows:

(In Millions)	2006	2005	2004
Gains on equity securities	\$ 293	\$ 163	\$ 115
Impairment charges	(79)	(208)	(117)
Gains (losses) on equity securities, net	\$ 214	\$ (45)	\$ (2)
Interest and other, net	\$ 1,202	\$ 565	\$ 289
Provision for taxes	\$ (2,024)	\$ (3,946)	\$ (2,901)

During 2006, the gains on equity securities of \$293 million included the gain of \$103 million on the sale of a portion of our investment in Micron, which was sold for \$275 million. During 2005, impairment charges of \$208 million included a \$105 million impairment charge on our investment in Micron. The impairment was principally based on our assessment during the second quarter of 2005 of Micron's financial results and the fact that the market price of Micron's stock had been below our cost basis for an extended period of time, as well as the competitive pricing environment for DRAM products. During 2004, the net losses on equity securities of \$2 million included impairments of \$117 million, primarily on non-marketable equity securities.

Interest and other, net increased to \$1.2 billion in 2006 compared to \$565 million in 2005, reflecting net gains of \$612 million for three completed divestitures (see Note 14: Acquisitions and Divestitures in Part II, Item 8 of this Form 10-K) and higher interest income as a result of higher interest rates, partially offset by lower cash balances. Interest and other, net increased to \$565 million in 2005 compared to \$289 million in 2004, reflecting higher interest income as a result of higher interest rates. Interest and other, net for 2004 also included approximately \$60 million of gains associated with terminating financing arrangements for manufacturing facilities and equipment in Ireland.

Our effective income tax rate was 28.6% in 2006 (31.3% in 2005 and 27.8% in 2004). The rate decreased in 2006 compared to 2005 primarily due to a higher percentage of our profits being derived from lower tax jurisdictions. In addition, the rate for 2005 included an increase to the tax provision of approximately \$265 million as a result of the decision to repatriate non-U.S. earnings under the American Jobs Creation Act of 2004. Partially offsetting the decrease in the effective tax rate was the impact of share-based compensation. The phasing out of the tax benefit for export sales only slightly increased the effective tax rate compared to the prior year, given the decrease in income before taxes. Our effective income tax rate was higher in 2005 compared to 2004, due to the decision to repatriate non-U.S. earnings, which were partially offset by the reversal of previously accrued items. The tax rate for 2004 included a \$195 million reduction to the tax provision, primarily from additional benefits for export sales along with state tax benefits for divestitures, as well as the reversal of previously accrued taxes, primarily related to the closing of a state income tax audit.

Liquidity and Capital Resources

Our financial condition remains strong. Cash, short-term investments, fixed income debt instruments included in trading assets, and debt at the end of each period were as follows:

(Dollars In Millions)	December 30, 2006	December 31, 2005
Cash, short-term investments, and fixed-income debt instruments included in trading assets	\$ 9,552	\$ 12,409
Short-term and long-term debt	\$ 2,028	\$ 2,419
Debt as % of stockholders' equity	5.5%	6.7%

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

In summary, our cash flows were as follows:

(In Millions)	2006	2005	2004
Net cash provided by operating activities	\$ 10,620	\$ 14,823	\$ 13,119
Net cash used for investing activities	(4,907)	(6,362)	(5,032)
Net cash used for financing activities	(6,439)	(9,544)	(7,651)
Net increase (decrease) in cash and cash equivalents	\$ (726)	\$ (1,083)	\$ 436

Operating Activities

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. For 2006 compared to 2005, the largest contributing factors to the decrease in cash provided by operating activities were due to lower net income, lower net maturities of trading assets, and changes in the amount of estimated tax payments, partially offset by a decrease in accounts receivable balances. Fiscal year 2006 included share-based compensation charges of approximately \$1.4 billion. For 2005 compared to 2004, the majority of the increase in cash provided by operating activities was from higher net maturities of trading assets and higher net income, partially offset by an increase in accounts receivable balances.

Inventories as of December 30, 2006 increased compared to December 31, 2005, as we continued to ramp new, higher cost products, primarily related to microprocessors on our 65-nanometer process technology and associated chipsets on our 90-nanometer process technology. Accounts receivable as of December 30, 2006 decreased compared to December 31, 2005, primarily driven by lower revenue and higher cash collections. For 2006 and 2005, our two largest customers accounted for 35% of net revenue, with one of these customers accounting for 19% of revenue and another customer accounting for 16%. Additionally, these two largest customers accounted for 52% of net accounts receivable at December 30, 2006 (42% at December 31, 2005).

Investing Activities

Investing cash flows consist primarily of capital expenditures and payments for investments acquired, partially offset by proceeds from investment maturities and sales. The decrease in cash used in investing activities in 2006 compared to 2005 was primarily due to higher net maturities and sales of available-for-sale investments. We also received \$752 million for the sale of three completed divestitures (see Note 14: Acquisitions and Divestitures in Part II, Item 8 of this Form 10-K). Additionally, during 2006 we sold a portion of our investment in Micron for \$275 million. Partially offsetting these impacts, we paid \$600 million in cash for our equity investment in Clearwire and \$615 million in cash for our equity investment in IMFT. In addition to the \$615 million paid in cash, our initial investment in IMFT of \$1.2 billion included the issuance of \$581 million in notes (reflected as a financing activity). In addition, we made a capital contribution of \$128 million to IMFT. Other investing activities for 2006 included the purchase of intellectual property assets from Micron, concurrent with the formation of IMFT, for \$230 million. For 2005 compared to 2004, the higher cash used in investing activities resulted from capital spending, primarily driven by investments in 65-nanometer production equipment.

Financing Activities

Financing cash flows consist primarily of repurchases and retirement of common stock and payment of dividends to stockholders. The lower cash used in financing activities in 2006 compared to 2005 was primarily due to a decrease in repurchases and retirement of common stock, partially offset by additions to long-term debt in 2005 of \$1.7 billion. For 2006, we repurchased 226 million shares of common stock for \$4.6 billion compared to 418 million shares for \$10.6 billion in 2005. At December 30, 2006, \$17.3 billion remained available for repurchase under existing repurchase authorizations. Our dividend payments were \$2.3 billion in 2006, which is higher than the \$2.0 billion paid in 2005, due to an increase from \$0.08 to \$0.10 in cash dividends per common share effective for the first quarter of 2006. On January 18, 2007, our Board of Directors declared a cash dividend of \$0.1125 per common share effective the first quarter of 2007. Additional financing activities for 2006 included proceeds from the sale of shares pursuant to employee equity incentive plans of \$1.0 billion (\$1.2 billion during 2005). For 2005 compared to 2004, the higher cash used in financing activities was primarily due to an increase in repurchases and retirements of common stock, partially offset by cash received from the issuance of long-term debt.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)****Liquidity**

During 2006, our level of cash declined, as our cash provided by operations was less than our cash used for investing and financing activities. Cash generated by operations is used as our primary source of liquidity. Another potential source of liquidity is authorized borrowings, including commercial paper, of \$3.0 billion. There were no borrowings under our commercial paper program during 2006. We also have an automatic shelf registration on file with the SEC pursuant to which we may offer an indeterminate amount of debt, equity, and other securities.

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 and assembly and test capacity, working capital requirements, the dividend program, potential stock repurchases, potential future acquisitions or strategic investments, and cash payments associated with our structure and efficiency program.

Contractual Obligations

The following table summarizes our significant contractual obligations at December 30, 2006:

(In Millions)	Total	Payments Due by Period			
		Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating lease obligations	\$ 384	\$ 114	\$ 138	\$ 57	\$ 75
Capital purchase obligations ¹	3,276	3,152	124		
Other purchase obligations and commitments ²	1,778	1,122	520	136	
Long-term debt obligations ³	3,377	66	132	282	2,897
Other long-term liabilities ³	1,041	71	330	214	426
Total⁴	\$ 9,856	\$ 4,525	\$ 1,244	\$ 689	\$ 3,398

¹ Capital purchase obligations represent commitments for the construction or purchase of property, plant and equipment. They were not recorded as liabilities on our consolidated balance sheet as of December 30, 2006, as we had not yet received the related goods or taken title to the property. Capital purchase obligations increased from \$2.7 billion at December 31, 2005 to \$3.3 billion at December 30, 2006, primarily due to purchase obligations for capital equipment related to our next-generation 45-nanometer process technology.

² Other purchase obligations and commitments include agreements to purchase raw materials or other goods as well as payments due under various types of licenses and non-contingent funding obligations. Funding obligations include, for example, agreements to fund various projects with other companies.

- ³ *Amounts represent total anticipated cash payments, including anticipated interest payments that are not recorded on the consolidated balance sheets and the short-term portion of the obligation. Any future settlement of convertible debt would reduce anticipated interest and/or principal payments. Amounts exclude fair value adjustments such as discounts or premiums that affect the amount recorded on the consolidated balance sheets.*
- ⁴ *Total does not include contractual obligations already recorded on the consolidated balance sheet as current liabilities (except for the short-term portion of the long-term debt and other long-term liabilities) or certain purchase obligations, which are discussed below.*

Contractual obligations for purchases of goods or services generally include agreements that are enforceable and legally binding on Intel and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. The table above also includes agreements to purchase raw materials that have cancellation provisions requiring little or no payment. The amounts under such contracts are included in the table above because management believes that cancellation of these contracts is unlikely and expects to make future cash payments according to the contract terms or in similar amounts for similar materials. For other obligations with cancellation provisions, the amounts included in the table above were limited to the non-cancelable portion of the agreement terms, and/or the minimum cancellation fee.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

We have entered into certain agreements for the purchase of raw materials or other goods that specify minimum prices, and quantities that are based on a percentage of the total available market or based on a percentage of our future purchasing requirements. Due to the uncertainty of the future market and our future purchasing requirements, obligations under these agreements are not included in the table above. We estimate our obligation under these agreements as of December 30, 2006 to be approximately as follows: less than one year \$175 million; one to three years \$600 million; three to five years \$400 million; more than five years zero. Our purchase orders for other products are based on our current manufacturing needs and are fulfilled by our vendors within short time horizons. In addition, some of our purchase orders represent authorizations to purchase rather than binding agreements.

Contractual obligations that are contingent upon the achievement of certain milestones are not included in the table above. These obligations include milestone-based co-marketing agreements, contingent funding obligations, and milestone-based equity investment funding. These arrangements are not considered contractual obligations until the milestone is met by the third party. As of December 30, 2006, assuming that all future milestones are met, additional required payments would be approximately \$254 million.

For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the statutory withholding requirements that are paid by Intel on behalf of its employees. The obligation to pay the relative taxing authority is not included in the table above, as the amount is contingent upon continued employment. In addition, the amount of the obligation is unknown, as it is based in part on the market price of our common stock when the awards vest.

The expected timing of payments of the obligations above are estimates based on current information. Timing of payments and actual amounts paid may be different, depending on the time of receipt of goods or services, or changes to agreed-upon amounts for some obligations. Amounts disclosed as contingent or milestone-based obligations are dependent on the achievement of the milestones or the occurrence of the contingent events and can vary significantly.

We currently have a contractual obligation to purchase the output of IMFT in proportion to our investment in IMFT, which is currently 49%. See Note 17: Venture in Part II, Item 8 of this Form 10-K. Additionally, we have entered into various contractual commitments in relation to our investment in IMFT. Some of these commitments are with Micron, and some are directly with IMFT. The following are the significant contractual commitments:

Subject to certain conditions, Intel and Micron each agreed to contribute approximately an additional \$1.4 billion in the three years following the initial capital contributions, of which we have contributed \$128 million as of December 30, 2006. Of the remaining obligation of \$1.3 billion, we contributed \$258 million in January 2007. This amount has been included in the table above under other purchase obligations and commitments. As part of our agreement with Micron related to IMFT, we may enter into agreements to make additional capital contributions for new fabrication facilities, and in November 2006, we announced our intention to form a new venture with Micron to add an additional NAND flash memory fabrication facility in Singapore. We also have several agreements with Micron related to intellectual property rights, and research and development funding related to NAND flash manufacturing and IMFT.

Off-Balance-Sheet Arrangements

As of December 30, 2006, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Employee Equity Incentive Plans

Our equity incentive programs are broad-based, long-term retention programs that are intended to attract and retain talented employees and align stockholder and employee interests. In May 2006, stockholders approved the 2006 Equity Incentive Plan (the 2006 Plan). The 2006 Plan replaced the 2004 Equity Incentive Plan, which was terminated early. Under the 2006 Plan, 175 million shares of common stock were made available for issuance as equity awards to employees and non-employee directors through June 2008, of which a maximum of 80 million shares can be awarded as restricted stock or restricted stock units. Additionally, in May 2006, stockholders approved the 2006 Stock Purchase Plan. Under the 2006 Stock Purchase Plan, 240 million shares of common stock were made available for issuance through August 2011. The 1976 Stock Participation Plan and all remaining shares available for issuance thereunder were cancelled as of the plan's expiration in August 2006.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Our goal has been to keep the potential incremental dilution related to our equity incentive plans to a long-term average of less than 2% annually. The dilution percentage is calculated using the equity-based awards granted during the period, net of awards cancelled due to employees leaving the company and expired stock options, divided by the total outstanding shares at the beginning of the year. For purposes of this disclosure, equity-based awards include stock option grants and restricted stock unit grants, but exclude rights granted under the stock purchase plan and awards assumed in connection with acquisitions.

Equity-based awards granted to employees, including officers, and non-employee directors from 2002 through 2006 are summarized as follows:

(Shares in Millions)	2006	2005	2004	2003	2002
Total equity-based awards granted	82	119	115	110	174
Less: equity-based awards cancelled	(67)	(38)	(32)	(40)	(44)
Net equity-based awards granted	15	81	83	70	130
Dilution % net equity-based awards granted as % of outstanding shares ¹	0.2%	1.3%	1.3%	1.1%	1.9%
Equity-based awards granted to listed officers ² as % of total equity-based awards granted	1.6%	1.4%	1.1%	2.4%	1.7%
Equity-based awards granted to listed officers ² as % of outstanding shares ¹	<0.1%	<0.1%	<0.1%	<0.1%	<0.1%
Cumulative equity-based awards held by listed officers ² as % of total equity-based awards outstanding	1.9%	1.9%	2.1%	2.1%	2.1%
Share-based compensation ³ recognized for listed officers ² as a % of total share-based compensation recognized ³	1.4%				

¹ Outstanding shares as of the beginning of each period.

² For all years presented, excluding 2004, listed officers includes our Chief Executive Officer, our Chief Financial Officer, and the three other most highly compensated executive officers serving at the end of the years presented. For 2004, listed officers also includes an officer who retired in January 2005.

³ Includes amounts recognized in the financial statements for stock options and restricted stock units according to the provisions of SFAS No. 123(R), which was adopted in the first quarter of 2006.

In accordance with a policy established by the Compensation Committee of the Board of Directors, total equity-based awards granted to the listed officers may not exceed 5% of total equity-based awards granted in any year. During 2006, equity-based awards granted to listed officers amounted to 1.6% of the grants made to all employees. All equity-based awards to executive officers are determined by the Compensation Committee. All members of the Compensation Committee are independent directors, as defined in the applicable rules for issuers traded on The NASDAQ Global Select Market*.

For additional information regarding equity incentive plans and the activity for the past three years, see Note 3: Employee Equity Incentive Plans in Part II, Item 8 of this Form 10-K. Information regarding our equity incentive plans should be read in conjunction with the information appearing under the heading Compensation Discussion and Analysis and Proposal 3: Approval of Amendment and Extension of the 2006 Equity Incentive Plan in our 2007 Proxy Statement, which is incorporated by reference into this Form 10-K.

Business Outlook

Our future results of operations and the other forward-looking statements contained in this Form 10-K, including this MD&A, involve a number of risks and uncertainties in particular, the statements regarding our goals and strategies, new product introductions, plans to cultivate new businesses, future economic conditions, revenue, pricing, gross margin and costs, capital spending, depreciation and amortization, research and development expenses, potential impairment of investments, the tax rate, and pending tax and legal proceedings. Our future results of operations may also be affected by the amount, type, and valuation of the share-based awards granted as well as the amount of awards cancelled due to employees leaving the company and the timing of award exercises by employees. We are in the midst of a structure and efficiency program which may result in several actions that could have an impact on expense levels and gross margin. In addition to the various important factors discussed above, a number of other important factors could cause actual results to differ materially from our expectations. See the risks described in Risk Factors in Part I, Item 1A of this Form 10-K.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Our financial results are substantially dependent on sales of microprocessors. Revenue is partly a function of the mix of types and performance capabilities of microprocessors sold, as well as the mix of chipsets, flash memory, and other semiconductor products sold, all of which are difficult to forecast. Because of the wide price differences among mobile, desktop, and server microprocessors, the mix of types and performance levels of microprocessors sold affects the average selling price that we will realize and has a large impact on our revenue and gross margin. Revenue is affected by the timing of new Intel product introductions and the demand for and market acceptance of our products, as well as actions taken by our competitors, including new product offerings, marketing programs, and pricing pressures, and our reaction to such actions. Microprocessor revenue is also dependent on the availability of other parts of the platform, including chipsets, motherboards, operating system software, and application software. Revenue is also subject to demand fluctuations and the impact of economic conditions in various geographic regions.

Our gross margin expectation for 2007 is 50% plus or minus a few points. The 50% midpoint is slightly lower compared to our 2006 gross margin of 51.5%, primarily due to expected higher start-up costs for microprocessors and chipsets, partially offset by lower unit costs on microprocessors. The gross margin percentage could vary significantly from expectations based on changes in revenue levels; product mix and pricing; capacity utilization; changes in unit costs; excess or obsolete inventory; manufacturing yields; the timing and execution of the manufacturing ramp and associated costs, including start-up costs; and impairments of long-lived assets, including manufacturing, assembly and test, and intangible assets.

We have continued to expand our semiconductor manufacturing and assembly and test capacity over the last few years, and we continue to plan capacity based on our overall strategy and the acceptance of our products in specific market segments. We currently expect that capital spending in 2007 will be approximately \$5.5 billion, plus or minus \$200 million, compared to \$5.8 billion in 2006. Capital spending is expected to be lower in 2007 compared to 2006, primarily due to continued efficiency efforts, partially offset by higher spending on capital equipment, related to our next-generation, 45-nanometer process technology. This capital-spending plan is dependent on expectations regarding production efficiencies and delivery times of various machinery and equipment, and construction schedules. If the demand for our products does not grow and continue to move toward higher performance products in the various market segments, revenue and gross margin would be adversely affected, manufacturing and/or assembly and test capacity would be under-utilized, and the rate of capital spending could be reduced. We could be required to record an impairment of our manufacturing or assembly and test equipment and/or facilities, or factory planning decisions may cause us to record accelerated depreciation. In addition, if demand for our products is reduced or we fail to accurately forecast demand, we could be required to write down inventory, which would have a negative impact on our gross margin. However, in the long term, revenue and gross margin may also be affected if we do not add capacity fast enough to meet market demand.

Depreciation for 2007 is expected to be approximately \$4.8 billion, plus or minus \$100 million, compared to \$4.7 billion in 2006.

Spending on research and development, plus marketing, general and administrative expenses (total spending) in 2007 is expected to be approximately \$10.7 billion. The expectation for total spending in 2007 is significantly lower than our 2006 spending of \$12.0 billion. We continue to focus on controlling our total spending through cost-saving actions. Expenses, particularly certain marketing and compensation expenses, vary depending on the level of demand for our products, the level of revenue and profits, and impairments of long-lived assets. Research and development spending in 2007 is expected to be approximately \$5.4 billion.

The tax rate for 2007 is expected to be approximately 30%. The estimated effective tax rate is based on tax law in effect at December 30, 2006 and current expected income. The tax rate may also be affected by the closing of acquisitions or divestitures; the jurisdiction in which profits are determined to be earned and taxed; changes in estimates of credits, benefits, and deductions; the resolution of issues arising from tax audits with various tax authorities; and the ability to realize deferred tax assets.

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

Table of Contents

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

Status of Business Outlook

We expect that our corporate representatives will, from time to time, meet privately with investors, investment analysts, the media, and others, and may reiterate the forward-looking statements contained in the Business Outlook section and elsewhere in this Form 10-K, including any such statements that are incorporated by reference in this Form 10-K. At the same time, we will keep this Form 10-K and our most current business outlook publicly available on our Investor Relations Web site at www.intc.com. The public can continue to rely on the business outlook published on the Web site as representing our current expectations on matters covered, unless we publish a notice stating otherwise. The statements in the Business Outlook and other forward-looking statements in this Form 10-K are subject to revision during the course of the year in our quarterly earnings releases and SEC filings and at other times.

From the close of business on March 2, 2007 until our quarterly earnings release is published, presently scheduled for April 17, 2007, we will observe a quiet period. During the quiet period, the Business Outlook and other forward-looking statements first published in our Form 8-K filed on January 16, 2007, as reiterated or updated as applicable, in this Form 10-K, should be considered historical, speaking as of prior to the quiet period only and not subject to update. During the quiet period, our representatives will not comment on the business outlook or our financial results or expectations. The exact timing and duration of the routine quiet period, and any others that we utilize from time to time, may vary at our discretion.

Table of Contents**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to financial market risks, including changes in currency exchange rates, interest rates, and marketable equity security prices. We use derivative financial instruments primarily to mitigate these risks and as part of our strategic investment program. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions at December 30, 2006 and December 31, 2005. Actual results may differ materially.

Currency Exchange Rates

We generally hedge currency risks of non-U.S.-dollar-denominated investments in debt securities with offsetting currency borrowings, currency forward contracts, or 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 incur certain operating costs in other currencies. To protect against reductions in value and the volatility of future cash flows caused by changes in currency exchange rates, we have established balance sheet and forecasted transaction risk management programs. Currency forward contracts and currency options are generally 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 all currencies could be experienced in the near term. Such adverse changes, after taking into account hedges and offsetting positions, would have resulted in an adverse impact on income before taxes of less than \$30 million at the end of 2006 and 2005.

Interest Rates

The primary objective of our investments in debt securities is to preserve principal while maximizing yields. To achieve this objective, the returns on our investments in fixed-rate debt are generally based on the three-month LIBOR, or, if longer term, are generally swapped into U.S. dollar three-month LIBOR-based returns. In addition to fixed-rate debt investments, in 2005 we issued debt. See Note 6: Borrowings in Part II, Item 8 of this Form 10-K for additional information. We considered the historical volatility of the interest rates experienced in prior years and the duration of our investment portfolio and debt issuances, and determined that it was reasonably possible that an adverse change of 80 basis points (0.80%), approximately 15% of the rate at December 30, 2006 (18% of the rate at December 31, 2005), could be experienced in the near term. A hypothetical 0.80% decrease in interest rates, after taking into account hedges and offsetting positions, would have resulted in a decrease in the fair value of our net investment position of approximately \$50 million as of December 30, 2006 and \$10 million as of December 31, 2005. The increase in exposure to an adverse fair value change from December 31, 2005 to December 30, 2006 was primarily driven by a decrease in the price of our common stock, which increased the sensitivity of the fair value of our convertible debt to adverse changes in interest rates.

Equity Security Prices

We have a portfolio of strategic equity investments that includes marketable strategic equity securities and derivative equity instruments such as warrants and options, as well as non-marketable equity investments. We invest in companies that develop software, hardware, or services supporting our technologies. Our current investment focus areas include helping to enable mobile wireless devices, advance the digital home, provide access to premium digital content, enhance the digital enterprise, advance high-performance communications infrastructures, and develop the

next generation of silicon production technologies. Our focus areas tend to develop and change over time due to rapid advancements in technology.

Our total marketable portfolio includes marketable strategic equity securities as well as marketable equity securities classified as trading assets. To the extent that our marketable portfolio of investments continues to have strategic value, we typically do not attempt to reduce or eliminate our market exposure. For securities that we no longer consider strategic, we evaluate legal, market, and economic factors in our decision on the timing of disposal and whether it is possible and appropriate to hedge the equity market risk. We may or may not enter into transactions to reduce or eliminate the market risks of our investments in strategic equity derivatives, including warrants.

The marketable equity securities included in trading assets, as well as certain equity derivatives, are held to generate returns that generally offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. The gains and losses from changes in fair value of these equity securities are generally offset by the gains and losses on the related liabilities, resulting in a net exposure of less than \$10 million as of both December 30, 2006 and December 31, 2005, assuming a reasonably possible decline in market prices of approximately 10% in the near term.

Table of Contents

As of December 30, 2006, the fair value of our portfolio of marketable strategic equity investments and equity derivative instruments, including hedging positions, was \$427 million (\$574 million as of December 31, 2005). To assess the market price sensitivity of these equity securities, we analyzed the historical movements over the past several years of high-technology stock indices that we considered appropriate. However, our marketable strategic equity portfolio is substantially concentrated in one company as of December 30, 2006, which will affect the portfolio's price volatility. We currently have an investment in Micron with a fair value of \$236 million at December 30, 2006, or 55% of the total marketable strategic equity portfolio value including equity derivative instruments. During 2006, we sold a portion of our investment in Micron. Based on the analysis of the high-technology stock indices and the historical volatility of Micron's stock, we estimated that it was reasonably possible that the prices of the stocks in our marketable strategic equity portfolio could experience a loss of 30% in the near term (40% as of December 31, 2005). This estimate is not necessarily indicative of future performance, and actual results may differ materially.

Assuming a loss of 30% in market prices, and after reflecting the impact of hedges and offsetting positions, our marketable strategic equity portfolio could decrease in value by approximately \$134 million, based on the value of the portfolio as of December 30, 2006 (a decrease in value of approximately \$245 million, based on the value of the portfolio as of December 31, 2005 using an assumed loss of 40%).

Our strategic investments in non-marketable equity securities are affected by many of the same factors that could result in an adverse movement of equity market prices, although the impact cannot be directly quantified. Such a movement and the 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, or private sales. These types of investments involve a great deal of risk, and there can be no assurance that any specific company will grow or become successful; consequently, we could lose all or part of our investment. At December 30, 2006, our strategic investments in non-marketable equity securities had a carrying amount of \$2.8 billion (\$561 million as of December 31, 2005). The carrying amount of these investments approximated fair value as of December 30, 2006 and December 31, 2005. As of December 30, 2006, our non-marketable equity securities portfolio was concentrated in two companies: IMFT and Clearwire. IMFT is a manufacturer of NAND flash memory, with a carrying amount of \$1.3 billion, or 46% of the total value of the non-marketable equity securities portfolio at December 30, 2006. See Note 17: Venture in Part II, Item 8 of this Form 10-K. The terms of our investment in IMFT contain contractual conditions that restrict our ability to sell the investment. Clearwire builds and operates next-generation wireless broadband networks. Our investment has a carrying amount of \$613 million, or 22% of the total value of the non-marketable equity securities portfolio at December 30, 2006. See Note 7: Investments in Part II, Item 8 of this Form 10-K.

Table of Contents

ITEM FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

8.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Consolidated Statements of Income</u>	49
<u>Consolidated Balance Sheets</u>	50
<u>Consolidated Statements of Cash Flows</u>	51
<u>Consolidated Statements of Stockholders' Equity</u>	52
<u>Notes to Consolidated Financial Statements</u>	53
<u>Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm</u>	89
<u>Supplemental Data: Financial Information by Quarter</u>	91

Table of Contents

INTEL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

Three Years Ended December 30, 2006 (In Millions, Except Per Share Amounts)	2006¹	2005	2004
Net revenue	\$ 35,382	\$ 38,826	\$ 34,209
Cost of sales	17,164	15,777	14,463
Gross margin	18,218	23,049	19,746
Research and development	5,873	5,145	4,778
Marketing, general and administrative	6,096	5,688	4,659
Restructuring and asset impairment charges	555		
Amortization of acquisition-related intangibles and costs	42	126	179
Operating expenses	12,566	10,959	9,616
Operating income	5,652	12,090	10,130
Gains (losses) on equity securities, net	214	(45)	(2)
Interest and other, net	1,202	565	289
Income before taxes	7,068	12,610	10,417
Provision for taxes	2,024	3,946	2,901
Net income	\$ 5,044	\$ 8,664	\$ 7,516
Basic earnings per common share	\$ 0.87	\$ 1.42	\$ 1.17
Diluted earnings per common share	\$ 0.86	\$ 1.40	\$ 1.16
Weighted average common shares outstanding	5,797	6,106	6,400
Weighted average common shares outstanding, assuming dilution	5,880	6,178	6,494

¹ Cost of sales and operating expenses for the year ended December 30, 2006 include share-based compensation. See Note 2: Accounting Policies and Note 3: Employee Equity Incentive Plans.

See accompanying notes.

Table of Contents

INTEL CORPORATION
CONSOLIDATED BALANCE SHEETS

December 30, 2006 and December 31, 2005
(In Millions, Except Par Value)

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,598	\$ 7,324
Short-term investments	2,270	3,990
Trading assets	1,134	1,458
Accounts receivable, net of allowance for doubtful accounts of \$32 (\$64 in 2005)	2,709	3,914
Inventories	4,314	3,126
Deferred tax assets	997	1,149
Other current assets	258	233
Total current assets	18,280	21,194
Property, plant and equipment, net		