

INTEL CORP  
Form 10-Q  
July 25, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 28, 2014.

Or

☐ 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)

(408) 765-8080

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

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

Shares outstanding of the Registrant's common stock:

Class

Common stock, \$0.001 par value

Outstanding as of July 18, 2014

4,951 million

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## INTEL CORPORATION

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

(In Millions, Except Per Share Amounts)	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Net revenue	\$13,831	\$12,811	\$26,595	\$25,391
Cost of sales	4,914	5,341	10,065	10,855
Gross margin	8,917	7,470	16,530	14,536
Research and development	2,859	2,516	5,705	5,043
Marketing, general and administrative	2,061	2,165	4,108	4,112
Restructuring and asset impairment charges	81	—	218	—
Amortization of acquisition-related intangibles	72	70	145	143
Operating expenses	5,073	4,751	10,176	9,298
Operating income	3,844	2,719	6,354	5,238
Gains (losses) on equity investments, net	95	11	143	(15 )
Interest and other, net	(17 )	(37 )	95	(87 )
Income before taxes	3,922	2,693	6,592	5,136
Provision for taxes	1,126	693	1,866	1,091
Net income	\$2,796	\$2,000	\$4,726	\$4,045
Basic earnings per common share	\$0.56	\$0.40	\$0.95	\$0.82
Diluted earnings per common share	\$0.55	\$0.39	\$0.92	\$0.79
Cash dividends declared per common share	\$—	\$—	\$0.45	\$0.45
Weighted average common shares outstanding:				
Basic	4,981	4,978	4,977	4,963
Diluted	5,123	5,106	5,120	5,093
See accompanying notes.				

## INTEL CORPORATION

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended		Six Months Ended		
(In Millions)	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013	
Net income	\$2,796	\$2,000	\$4,726	\$4,045	
Other comprehensive income, net of tax:					
Change in net unrealized holding gains (losses) on available-for-sale investments	(9	) 434	(86	) 607	
Change in net deferred tax asset valuation allowance	(2	) —	(4	) —	
Change in net unrealized holding gains (losses) on derivatives	(3	) 49	11	(107	)
Change in net prior service costs	(1	) 1	(43	) 2	
Change in actuarial valuation	7	36	5	70	
Change in net foreign currency translation adjustment	(28	) 35	(6	) (28	)
Other comprehensive income (loss)	(36	) 555	(123	) 544	
Total comprehensive income	\$2,760	\$2,555	\$4,603	\$4,589	
See accompanying notes.					

INTEL CORPORATION  
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions)	Jun 28, 2014	Dec 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$3,049	\$5,674
Short-term investments	4,491	5,972
Trading assets	9,771	8,441
Accounts receivable, net	3,489	3,582
Inventories	3,943	4,172
Deferred tax assets	2,255	2,594
Other current assets	2,008	1,649
Total current assets	29,006	32,084
Property, plant and equipment, net of accumulated depreciation of \$44,030 (\$41,988 as of December 28, 2013)	33,115	31,428
Marketable equity securities	6,044	6,221
Other long-term investments	2,184	1,473
Goodwill	10,621	10,513
Identified intangible assets, net	4,697	5,150
Other long-term assets	6,126	5,489
Total assets	\$91,793	\$92,358
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	\$ 14	\$281
Accounts payable	2,960	2,969
Accrued compensation and benefits	2,409	3,123
Accrued advertising	1,067	1,021
Deferred income	2,171	2,096
Other accrued liabilities	3,630	4,078
Total current liabilities	12,251	13,568
Long-term debt	13,180	13,165
Long-term deferred tax liabilities	4,187	4,397
Other long-term liabilities	2,928	2,972
Contingencies (Note 21)		
Stockholders' equity:		
Preferred stock	—	—
Common stock and capital in excess of par value, 4,948 shares issued and outstanding (4,967 as of December 28, 2013)	22,475	21,536
Accumulated other comprehensive income (loss)	1,120	1,243
Retained earnings	35,652	35,477
Total stockholders' equity	59,247	58,256
Total liabilities and stockholders' equity	\$91,793	\$92,358
See accompanying notes.		



INTEL CORPORATION  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

(In Millions)	Six Months Ended	
	Jun 28, 2014	Jun 29, 2013
Cash and cash equivalents, beginning of period	\$5,674	\$8,478
Cash flows provided by (used for) operating activities:		
Net income	4,726	4,045
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,600	3,394
Share-based compensation	586	587
Restructuring and asset impairment charges	218	—
Excess tax benefit from share-based payment arrangements	(65)	(38)
Amortization of intangibles	577	661
(Gains) losses on equity investments, net	(90)	60
Deferred taxes	(206)	(351)
Changes in assets and liabilities:		
Accounts receivable	89	368
Inventories	235	195
Accounts payable	(103)	184
Accrued compensation and benefits	(813)	(787)
Income taxes payable and receivable	88	296
Other assets and liabilities	112	393
Total adjustments	4,228	4,962
Net cash provided by operating activities	8,954	9,007
Cash flows provided by (used for) investing activities:		
Additions to property, plant and equipment	(5,517)	(4,897)
Acquisitions, net of cash acquired	(137)	(384)
Purchases of available-for-sale investments	(5,113)	(7,322)
Sales of available-for-sale investments	409	598
Maturities of available-for-sale investments	5,555	2,961
Purchases of trading assets	(6,825)	(9,616)
Maturities and sales of trading assets	5,544	7,758
Collection of loans receivable	17	116
Origination of loans receivable	—	(100)
Investments in non-marketable equity investments	(1,115)	(125)
Other investing	167	182
Net cash used for investing activities	(7,015)	(10,829)
Cash flows provided by (used for) financing activities:		
Increase (decrease) in short-term debt, net	(267)	(49)
Excess tax benefit from share-based payment arrangements	65	38
Proceeds from sales of shares through employee equity incentive plans	1,005	1,040
Repurchase of common stock	(2,924)	(1,355)
Payment of dividends to stockholders	(2,245)	(2,237)
Other financing	(199)	(307)
Net cash used for financing activities	(4,565)	(2,870)

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Effect of exchange rate fluctuations on cash and cash equivalents	1	(8	)
Net increase (decrease) in cash and cash equivalents	(2,625	) (4,700	)
Cash and cash equivalents, end of period	\$3,049	\$3,778	
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest, net of capitalized interest	\$90	\$115	
Income taxes, net of refunds	\$1,935	\$1,134	
See accompanying notes.			

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited

Note 1: Basis of Presentation

We prepared our interim consolidated condensed financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 28, 2013. We have reclassified certain prior period amounts to conform to current period presentation.

We have made estimates and judgments affecting the amounts reported in our consolidated condensed financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. The interim financial information is unaudited, but reflects all normal adjustments that are, in our opinion, necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 28, 2013.

Note 2: Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board issued a new standard to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under U.S. generally accepted accounting principles. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for us beginning in the first quarter of 2017; early adoption is prohibited. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method nor have we determined the impact of the new standard on our consolidated condensed financial statements.

Note 3: Fair Value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use when pricing the asset or liability. Our financial assets are measured and recorded at fair value, except for equity method investments, cost method investments, cost method loans receivable, and reverse repurchase agreements with original maturities greater than approximately three months. Most of our liabilities are not measured and recorded at fair value.

Fair Value Hierarchy

The three levels of inputs that may be used to measure fair value are as follows:

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

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in less active markets, or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include non-binding market consensus prices that can be corroborated with observable market data, as well as quoted prices that were adjusted for security-specific restrictions.

Level 3. Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities. Level 3 inputs also include non-binding market consensus prices or non-binding broker quotes that we were unable to corroborate with observable market data.



## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

## Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

Assets and liabilities measured and recorded at fair value on a recurring basis at the end of each period were as follows:

(In Millions)	June 28, 2014				December 28, 2013			
	Fair Value Measured and Recorded at Reporting Date Using				Fair Value Measured and Recorded at Reporting Date Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Cash equivalents:								
Corporate debt	\$40	\$685	\$—	\$725	\$154	\$1,920	\$—	\$2,074
Financial institution instruments	97	1,134	—	1,231	887	1,190	—	2,077
Government debt	—	197	—	197	—	269	—	269
Reverse repurchase agreements	—	168	—	168	—	400	—	400
Short-term investments:								
Corporate debt	218	907	31	1,156	274	1,374	19	1,667
Financial institution instruments	195	2,162	—	2,357	194	2,895	—	3,089
Government debt	227	751	—	978	183	1,033	—	1,216
Trading assets:								
Asset-backed securities	—	948	75	1,023	—	684	4	688
Corporate debt	2,315	829	—	3,144	2,161	628	—	2,789
Financial institution instruments	1,133	903	—	2,036	1,188	418	—	1,606
Government debt	1,708	1,860	—	3,568	1,625	1,733	—	3,358
Other current assets:								
Derivative assets	—	171	—	171	48	309	—	357
Loans receivable	—	631	—	631	—	103	—	103
Marketable equity securities	5,927	117	—	6,044	6,221	—	—	6,221
Other long-term investments:								
Asset-backed securities	—	—	8	8	—	—	9	9
Corporate debt	868	282	19	1,169	228	270	27	525
Financial institution instruments	273	349	—	622	90	402	—	492
Government debt	215	170	—	385	259	188	—	447
Other long-term assets:								
Derivative assets	—	8	30	38	—	7	29	36
Loans receivable	—	171	—	171	—	702	—	702
Total assets measured and recorded at fair value	\$13,216	\$12,443	\$163	\$25,822	\$13,512	\$14,525	\$88	\$28,125
<b>Liabilities</b>								
Other accrued liabilities:								
Derivative liabilities	\$—	\$283	\$—	\$283	\$—	\$372	\$—	\$372
Other long-term liabilities:								
Derivative liabilities	—	13	—	13	—	50	—	50
	\$—	\$296	\$—	\$296	\$—	\$422	\$—	\$422

Total liabilities measured and  
recorded at fair value

Government debt includes instruments such as non-U.S. government bonds, U.S. agency securities, and U.S. Treasury securities. Financial institution instruments include instruments such as commercial paper, floating and fixed rate bonds, money market fund deposits, and time deposits.

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## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

During the first six months of 2014, we transferred approximately \$365 million of corporate debt, financial institution instruments, government debt, and marketable equity securities from Level 1 to Level 2 of the fair value hierarchy, primarily based on reduced market activity for the underlying securities. During the first six months of 2014, we transferred approximately \$345 million of corporate debt, government debt, and financial institution instruments from Level 2 to Level 1 of the fair value hierarchy, primarily based on greater market activity for the underlying securities (\$255 million of corporate debt, financial institution instruments, and government debt during the first six months of 2013). Our policy is to reflect transfers between the fair value hierarchy levels at the beginning of the quarter in which a change in circumstances resulted in the transfer.

**Investments in Debt Instruments**

Debt instruments reflected in the preceding table include investments such as asset-backed securities, corporate debt, financial institution instruments, government debt, and reverse repurchase agreements classified as cash equivalents. We classify our debt instruments as Level 2 when we use observable market prices for identical securities that are traded in less active markets. When observable market prices for identical securities are not available, we price the debt investments using our own models, such as a discounted cash flow model, or non-binding market consensus prices based on the proprietary valuation models of pricing providers or brokers. We corroborate non-binding market consensus prices with observable market data using statistical models when observable market data exists, quoted market prices for similar instruments, or pricing models such as a discounted cash flow model. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and unobservable market inputs that we consider to be not significant. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings. All significant inputs are derived from or corroborated with observable market data.

The fair values of debt instruments classified as Level 3 are generally derived from discounted cash flow models, performed either by us or our pricing providers, using inputs that we are unable to corroborate with observable market data. We monitor and review the inputs and results of these valuation models to ensure the fair value measurements are reasonable and consistent with market experience in similar asset classes.

**Fair Value Option for Loans Receivable**

We elected the fair value option for loans receivable when the interest rate or currency exchange rate risk was hedged at inception with a related derivative instrument. As of June 28, 2014, the fair value of our loans receivable for which we elected the fair value option did not significantly differ from the contractual principal balance based on the contractual currency. Loans receivable are classified within other current assets and other long-term assets. Fair value is determined using a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Gains and losses from changes in fair value on the loans receivable and related derivative instruments, as well as interest income, are recorded in interest and other, net. During all periods presented, changes in the fair value of our loans receivable were largely offset by changes in the related derivative instruments, resulting in an insignificant net impact on our consolidated condensed statements of income. Gains and losses attributable to changes in credit risk are determined using observable credit default spreads for the issuer or comparable companies; these gains and losses were insignificant during all periods presented. We did not elect the fair value option for loans receivable when the interest rate or currency exchange rate risk was not hedged at inception with a related derivative instrument. Loans receivable not measured and recorded at fair value are included in the "Financial Instruments Not Recorded at Fair Value on a Recurring Basis" section that follows.

**Assets Measured and Recorded at Fair Value on a Non-Recurring Basis**

Our non-marketable equity investments, marketable equity method investments, and non-financial assets, such as intangible assets and property, plant and equipment, are recorded at fair value only if an impairment charge is recognized.

Some of our non-marketable equity investments have been measured and recorded at fair value due to events or circumstances that significantly impacted the fair value of those investments, resulting in other-than-temporary

impairment charges. We classified these investments as Level 3 because the valuations used unobservable inputs that were significant to the fair value measurements and required management judgment due to the absence of quoted market prices. Impairment charges recognized on non-marketable equity investments held as of June 28, 2014, were \$37 million during the second quarter of 2014 and \$75 million during the first six months of 2014 (\$60

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

million during the second quarter of 2013 and \$74 million during the first six months of 2013 on non-marketable equity investments held as of June 29, 2013).

## Financial Instruments Not Recorded at Fair Value on a Recurring Basis

On a quarterly basis, we measure the fair value of our grants receivable, cost method loans receivable, non-marketable cost method investments, reverse repurchase agreements with original maturities greater than approximately three months, and indebtedness carried at amortized cost; however, the assets are recorded at fair value only when an impairment charge is recognized. The carrying amounts and fair values of financial instruments not recorded at fair value on a recurring basis at the end of each period were as follows:

June 28, 2014					
(In Millions)	Carrying Amount	Fair Value Measured Using			Fair Value
		Level 1	Level 2	Level 3	
Grants receivable	\$680	\$—	\$688	\$—	\$688
Loans receivable	\$250	\$—	\$250	\$—	\$250
Non-marketable cost method investments	\$1,781	\$—	\$—	\$2,639	\$2,639
Reverse repurchase agreements	\$385	\$—	\$385	\$—	\$385
Long-term debt	\$13,180	\$11,344	\$2,800	\$—	\$14,144
NVIDIA Corporation cross-license agreement liability	\$391	\$—	\$398	\$—	\$398
December 28, 2013					
(In Millions)	Carrying Amount	Fair Value Measured Using			Fair Value
		Level 1	Level 2	Level 3	
Grants receivable	\$416	\$—	\$481	\$—	\$481
Loans receivable	\$267	\$—	\$250	\$17	\$267
Non-marketable cost method investments	\$1,270	\$—	\$—	\$2,105	\$2,105
Reverse repurchase agreements	\$400	\$—	\$400	\$—	\$400
Short-term debt	\$24	\$—	\$24	\$—	\$24
Long-term debt	\$13,165	\$10,937	\$2,601	\$—	\$13,538
NVIDIA Corporation cross-license agreement liability	\$587	\$—	\$597	\$—	\$597

The fair value of our grants receivable is determined using a discounted cash flow model, which discounts future cash flows using an appropriate yield curve. As of June 28, 2014 and December 28, 2013, the carrying amount of our grants receivable was classified within other current assets and other long-term assets, as applicable.

The carrying amount and fair value of loans receivable exclude loans measured and recorded at a fair value of \$802 million as of June 28, 2014 (\$805 million as of December 28, 2013). The fair value of our loans receivable and reverse repurchase agreements, including those held at fair value, is determined using a discounted cash flow model. All significant inputs in the models are derived from or corroborated with observable market data, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings. The credit quality of these assets remains high, with credit ratings of A+/A1 or better for the substantial majority of our loans receivable and the majority of our reverse repurchase agreements as of June 28, 2014.

As of June 28, 2014 and December 28, 2013, the unrealized loss position of our non-marketable cost method investments was insignificant. Our non-marketable cost method investments are valued using the market and income approaches. The market approach includes the use of financial metrics and ratios of comparable public companies. The selection of comparable companies requires management judgment and is based on a number of factors, including comparable companies' sizes, growth rates, industries, and development stages. The income approach includes the use of a discounted cash flow model, which requires significant estimates regarding investees' revenue, costs, and discount rates based on the risk profile of comparable companies. Estimates of revenue and costs are developed using available market, historical, and forecast data. The valuation of these non-marketable cost method investments also takes into

account variables such as conditions reflected in the capital markets, recent financing activities by the investees, the investees' capital structure, the terms of the investees' issued interests, and the level of marketability of the investments.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

The carrying amount and fair value of short-term debt exclude drafts payable.

Our long-term debt recognized at amortized cost is comprised of our senior notes and our convertible debentures. The fair value of our senior notes is determined using active market prices, and is therefore classified as Level 1. The fair value of our convertible debentures is determined using discounted cash flow models with observable market inputs, and takes into consideration variables such as interest rate changes, comparable securities, subordination discount, and credit-rating changes, and is therefore classified as Level 2.

The NVIDIA Corporation (NVIDIA) cross-license agreement liability in the preceding table was incurred as a result of entering into a long-term patent cross-license agreement with NVIDIA in January 2011. We agreed to make payments to NVIDIA over six years. As of June 28, 2014 and December 28, 2013, the carrying amount of the liability arising from the agreement was classified within other accrued liabilities and other long-term liabilities, as applicable. The fair value is determined using a discounted cash flow model, which discounts future cash flows using our incremental borrowing rates.

## Note 4: Cash and Investments

Cash and investments at the end of each period were as follows:

(In Millions)	Jun 28, 2014	Dec 28, 2013
Available-for-sale investments	\$ 14,872	\$ 18,086
Cash	728	854
Equity method investments	1,489	1,038
Loans receivable	1,052	1,072
Non-marketable cost method investments	1,781	1,270
Reverse repurchase agreements	553	800
Trading assets	9,771	8,441
Total cash and investments	\$ 30,246	\$ 31,561

## Available-for-Sale Investments

Available-for-sale investments at the end of each period were as follows:

(In Millions)	June 28, 2014				December 28, 2013			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset-backed securities	\$ 10	\$ —	\$ (2	) \$ 8	\$ 11	\$ —	\$ (2	) \$ 9
Corporate debt	3,034	18	(2	) 3,050	4,254	15	(3	) 4,266
Financial institution instruments	4,206	5	(1	) 4,210	5,654	5	(1	) 5,658
Government debt	1,561	—	(1	) 1,560	1,932	1	(1	) 1,932
Marketable equity securities	3,296	2,748	—	6,044	3,340	2,881	—	6,221
Total								
available-for-sale investments	\$ 12,107	\$ 2,771	\$ (6	) \$ 14,872	\$ 15,191	\$ 2,902	\$ (7	) \$ 18,086

Government debt includes instruments such as non-U.S. government bonds, U.S. agency securities, and U.S. Treasury securities. Financial institution instruments include instruments such as commercial paper, floating and fixed rate bonds, money market fund deposits, and time deposits. Time deposits were primarily issued by institutions outside the U.S. as of June 28, 2014 and December 28, 2013.

For information on the unrealized holding gains (losses) on available-for-sale investments reclassified out of accumulated other comprehensive income (loss) into the consolidated condensed statements of income, see "Note 20: Other Comprehensive Income (Loss)."



## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

We sold available-for-sale investments for proceeds of \$322 million in the second quarter of 2014 and \$496 million in the first six months of 2014 (\$294 million in the second quarter of 2013 and \$598 million in the first six months of 2013). The gross realized gains on sales of available-for-sale investments were \$69 million in the second quarter of 2014 and \$136 million in the first six months of 2014.

The amortized cost and fair value of available-for-sale debt investments, by contractual maturity, as of June 28, 2014, were as follows:

(In Millions)	Cost	Fair Value
Due in 1 year or less	\$6,293	\$6,313
Due in 1–2 years	1,266	1,265
Due in 2–5 years	884	885
Instruments not due at a single maturity date	368	365
Total	\$8,811	\$8,828

Instruments not due at a single maturity date in the preceding table primarily include corporate debt, financial institution instruments, and government debt.

## Equity Method Investments

## IM Flash Technologies, LLC

Micron Technology, Inc. (Micron) and Intel formed IM Flash Technologies, LLC (IMFT) in 2007 to manufacture NAND flash memory products for Micron and Intel. During 2012, we amended the operating agreement for IMFT and entered into agreements with Micron that modified our joint venture relationship. The amended operating agreement extended the term of IMFT to 2024, unless earlier terminated under certain terms and conditions, and provides that IMFT may manufacture certain emerging memory technologies in addition to NAND flash memory. Additionally, the amended agreement provides for certain rights that, beginning in 2015, will enable us to sell to Micron, or enable Micron to purchase from us, our interest in IMFT. If Intel exercises this right, Micron would set the closing date of the transaction within two years following such election and could elect to receive financing from Intel for one to two years. The agreements with Micron include a supply agreement for Micron to supply us with NAND flash memory products. The agreements also extend and expand our NAND joint development program with Micron to include emerging memory technologies.

As of June 28, 2014, we own a 49% interest in IMFT. The carrying value of our investment was \$699 million as of June 28, 2014 (\$646 million as of December 28, 2013) and is classified within other long-term assets.

IMFT is a variable interest entity. All costs of the IMFT joint venture will be passed on to Micron and Intel pursuant to our purchase agreements. Intel's portion of IMFT costs, primarily related to product purchases and production-related services, was approximately \$100 million in the second quarter of 2014 and approximately \$205 million in the first six months of 2014 (approximately \$100 million in the second quarter of 2013 and approximately \$200 million in the first six months of 2013). The amount due to IMFT for product purchases and services provided was approximately \$95 million as of June 28, 2014 (approximately \$75 million as of December 28, 2013).

IMFT depends on Micron and Intel for any additional cash needs. Our known maximum exposure to loss approximated the carrying value of our investment balance in IMFT, which was \$699 million as of June 28, 2014. Except for the amount due to IMFT for product purchases and services, we did not have any additional liabilities recognized on our consolidated condensed balance sheets in connection with our interests in this joint venture as of June 28, 2014. Our potential future losses could be higher than the carrying amount of our investment, as Intel and Micron are liable for other future operating costs or obligations of IMFT. Future cash calls could also increase our investment balance and the related exposure to loss. In addition, because we are currently committed to purchasing 49% of IMFT's production output and production-related services, we may be required to purchase products at a cost in excess of realizable value.

We have determined that we do not have the characteristics of a consolidating investor in the variable interest entity and, therefore, we account for our interest in IMFT using the equity method of accounting.



## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

Cloudera, Inc.

During the second quarter of 2014, we invested in Cloudera, Inc. (Cloudera). Our fully-diluted ownership interest in Cloudera is 18% as of June 28, 2014. Our investment is accounted for under the equity and cost methods of accounting and is classified within other long-term assets. As of June 28, 2014, the carrying value of our equity method investment was \$288 million and of our cost method investment was \$454 million.

#### Trading Assets

As of June 28, 2014 and December 28, 2013, all of our trading assets were marketable debt instruments. Net losses related to trading assets still held at the reporting date were \$11 million in the second quarter of 2014 and net gains were \$54 million in the first six months of 2014 (net gains of \$50 million in the second quarter of 2013 and net losses of \$32 million in the first six months of 2013). Net gains on the related derivatives were \$9 million in the second quarter of 2014 and net losses of \$56 million in the first six months of 2014 (net losses of \$50 million in the second quarter of 2013 and net gains of \$34 million in the first six months of 2013).

#### Note 5: Inventories

We compute inventory cost on a first-in, first-out basis. Costs incurred to manufacture our products are included in the valuation of inventory beginning in the quarter in which a product meets the technical criteria to qualify for sale to customers. Prior to qualification for sale, costs that do not meet the criteria for research and development are included in cost of sales in the period incurred. Inventories at the end of each period were as follows:

(In Millions)	Jun 28, 2014	Dec 28, 2013
Raw materials	\$503	\$458
Work in process	2,071	1,998
Finished goods	1,369	1,716
Total inventories	\$3,943	\$4,172

#### Note 6: Derivative Financial Instruments

Our primary objective for holding derivative financial instruments is to manage currency exchange rate risk and interest rate risk, and, to a lesser extent, equity market risk, commodity price risk, and credit risk. We also enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. Generally our master netting agreements allow for net settlement in case of certain triggering events such as bankruptcy or default of one of the counterparties to the transaction. We may also elect to exchange cash collateral with certain of our counterparties on a regular basis. For presentation on our consolidated condensed balance sheets, we do not offset fair value amounts recognized for derivative instruments under master netting arrangements.

#### Currency Exchange Rate Risk

We are exposed to currency exchange rate risk and generally hedge our exposures with currency forward contracts, currency interest rate swaps, or currency options. Substantially all of our revenue is transacted in U.S. dollars. However, a significant amount of our operating expenditures and capital purchases is incurred in or exposed to other currencies, primarily the euro, the Japanese yen, the Israeli shekel, and the Chinese yuan. We have established balance sheet and forecasted transaction currency risk management programs to protect against fluctuations in fair value and the volatility of the functional currency equivalent of future cash flows caused by changes in exchange rates. Our non-U.S.-dollar-denominated investments in debt instruments and loans receivable are generally hedged with offsetting currency forward contracts or currency interest rate swaps. We may also hedge currency risk arising from funding foreign currency denominated forecasted investments. These programs reduce, but do not eliminate, the impact of currency exchange movements.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

Our currency risk management programs include:

Currency derivatives with cash flow hedge accounting designation that utilize currency forward contracts and currency options to hedge exposures to the variability in the U.S.-dollar equivalent of anticipated non-U.S.-dollar-denominated cash flows. These instruments generally mature within 12 months. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss), and we reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and in the same line item on the consolidated condensed statements of income as the impact of the hedged transaction.

Currency derivatives without hedge accounting designation that utilize currency forward contracts or currency interest rate swaps to economically hedge the functional currency equivalent cash flows of recognized monetary assets and liabilities, non-U.S.-dollar-denominated debt instruments classified as trading assets, and hedges of non-U.S.-dollar-denominated loans receivable recognized at fair value. The majority of these instruments mature within 12 months. Changes in the functional currency equivalent cash flows of the underlying assets and liabilities are approximately offset by the changes in fair value of the related derivatives. We record net gains or losses in the line item on the consolidated condensed statements of income most closely associated with the related exposures, primarily in interest and other, net, except for equity-related gains or losses, which we primarily record in gains (losses) on equity investments, net.

Interest Rate Risk

Our primary objective for holding investments in debt instruments is to preserve principal while maximizing yields. We generally swap the returns on our investments in fixed-rate debt instruments with remaining maturities longer than six months into U.S. dollar three-month LIBOR-based returns, unless management specifically approves otherwise. These swaps are settled at various interest payment times involving cash payments at each interest and principal payment date, with the majority of the contracts having quarterly payments.

Our interest rate risk management programs include:

- Interest rate derivatives with cash flow hedge accounting designation that utilize interest rate swap agreements to modify the interest characteristics of debt instruments. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss), and we reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and in the same line item on the consolidated condensed statements of income as the impact of the hedged transaction.

Interest rate derivatives without hedge accounting designation that utilize interest rate swaps and currency interest rate swaps in economic hedging transactions, including hedges of non-U.S.-dollar-denominated debt instruments classified as trading assets and hedges of non-U.S.-dollar-denominated loans receivable recognized at fair value. Floating interest rates on the swaps generally reset on a quarterly basis. Changes in fair value of the debt instruments classified as trading assets and loans receivable recognized at fair value are generally offset by changes in fair value of the related derivatives, both of which are recorded in interest and other, net.

Equity Market Risk

Our investments include marketable equity securities and equity derivative instruments. We typically do not attempt to reduce or eliminate our equity market exposure through hedging activities at the inception of our investments. Before we enter into hedge arrangements, we evaluate legal, market, and economic factors, as well as the expected timing of disposal to determine whether hedging is appropriate. Our equity market risk management program may include equity derivatives with or without hedge accounting designation that utilize warrants, equity options, or other equity derivatives. We recognize changes in the fair value of such derivatives in gains (losses) on equity investments, net. We also utilize total return swaps to offset changes in liabilities related to the equity market risks of certain deferred compensation arrangements. Gains and losses from changes in fair value of these total return swaps are generally offset by the losses and gains on the related liabilities, both of which are recorded in cost of sales and operating expenses.

Commodity Price Risk

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

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

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

## Volume of Derivative Activity

Total gross notional amounts for outstanding derivatives (recorded at fair value) at the end of each period were as follows:

(In Millions)	Jun 28, 2014	Dec 28, 2013	Jun 29, 2013
Currency forwards	\$12,212	\$13,404	\$12,105
Currency interest rate swaps	4,908	4,377	3,632
Embedded debt derivatives	3,600	3,600	3,600
Interest rate swaps	1,318	1,377	1,257
Total return swaps	1,040	914	817
Other	61	67	77
Total	\$23,139	\$23,739	\$21,488

The gross notional amounts for currency forwards and currency interest rate swaps (presented by currency) at the end of each period were as follows:

(In Millions)	Jun 28, 2014	Dec 28, 2013	Jun 29, 2013
British pound sterling	\$505	\$549	\$428
Chinese yuan	1,498	1,116	547
Euro	5,942	6,874	6,291
Israeli shekel	1,995	2,244	1,886
Japanese yen	3,188	4,116	3,771
Malaysian ringgit	844	506	422
Swiss franc	1,460	1,189	1,206
Other	1,688	1,187	1,186
Total	\$17,120	\$17,781	\$15,737

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

## Fair Value of Derivative Instruments in the Consolidated Condensed Balance Sheets

The fair value of our derivative instruments at the end of each period were as follows:

(In Millions)	June 28, 2014				December 28, 2013			
	Other Current Assets	Other Long-Term Assets	Other Accrued Liabilities	Other Long-Term Liabilities	Other Current Assets	Other Long-Term Assets	Other Accrued Liabilities	Other Long-Term Liabilities
Derivatives designated as hedging instruments:								
Currency forwards	\$51	\$ —	\$32	\$ 5	\$114	\$ 1	\$118	\$ 2
Other	—	—	2	—	—	—	—	—
Total derivatives designated as hedging instruments	\$51	\$ —	\$34	\$ 5	\$114	\$ 1	\$118	\$ 2
Derivatives not designated as hedging instruments:								
Currency forwards	\$25	\$ —	\$55	\$ —	\$66	\$ —	\$63	\$ —
Currency interest rate swaps	93	8	174	—	124	6	163	29
Interest rate swaps	2	—	20	—	5	—	28	—
Total return swaps	—	—	—	—	48	—	—	—
Other	—	30	—	8	—	29	—	19
Total derivatives not designated as hedging instruments	\$120	\$ 38	\$249	\$ 8	\$243	\$ 35	\$254	\$ 48
Total derivatives	\$171	\$ 38	\$283	\$ 13	\$357	\$ 36	\$372	\$ 50

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

## Amounts Offset in the Consolidated Condensed Balance Sheets

The gross amounts of our derivative instruments and reverse repurchase agreements subject to master netting arrangements with various counterparties and cash and non-cash collateral posted under such agreements at the end of each period were as follows:

June 28, 2014						
(In Millions)	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash and Non-Cash Collateral Received or Pledged	Net Amount
Assets:						
Derivative assets subject to master netting arrangements	\$ 157	\$—	\$ 157	\$(112	) \$(8	) \$ 37
Reverse repurchase agreements	553	—	553	—	(553	) —
Total assets	\$ 710	\$—	\$ 710	\$(112	) \$(561	) \$ 37
Liabilities:						
Derivative liabilities subject to master netting arrangements	\$ 280	\$—	\$ 280	\$(112	) \$(142	) \$ 26
Total liabilities	\$ 280	\$—	\$ 280	\$(112	) \$(142	) \$ 26
December 28, 2013						
(In Millions)	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash and Non-Cash Collateral Received or Pledged	Net Amount
Assets:						
Derivative assets subject to master netting arrangements	\$ 325	\$—	\$ 325	\$(158	) \$(3	) \$ 164
Reverse repurchase agreements	800	—	800	—	(800	) —
Total assets	\$ 1,125	\$—	\$ 1,125	\$(158	) \$(803	) \$ 164
Liabilities:						
Derivative liabilities subject to master netting arrangements	\$ 401	\$—	\$ 401	\$(158	) \$(32	) \$ 211
Total liabilities	\$ 401	\$—	\$ 401	\$(158	) \$(32	) \$ 211



## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

## Derivatives in Cash Flow Hedging Relationships

The before-tax gains (losses), attributed to the effective portion of cash flow hedges, recognized in other comprehensive income (loss) for each period were as follows:

(In Millions)	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Currency forwards	\$5	\$47	\$40	\$(189)
Other	(1)	—	(3)	1
Total	\$4	\$47	\$37	\$(188)

Gains and losses on derivative instruments in cash flow hedging relationships related to hedge ineffectiveness and amounts excluded from effectiveness testing, were insignificant during all periods presented in the preceding tables. Additionally, for all periods presented, there was an insignificant impact on results of operations from discontinued cash flow hedges, which arises when forecasted transactions are probable of not occurring.

For information on the unrealized holding gains (losses) on derivatives reclassified out of accumulated other comprehensive income into the consolidated condensed statements of income, see "Note 20: Other Comprehensive Income (Loss)."

## Derivatives Not Designated as Hedging Instruments

The effects of derivative instruments not designated as hedging instruments on the consolidated condensed statements of income for each period were as follows:

(In Millions)	Location of Gains (Losses) Recognized in Income on Derivatives	Three Months Ended		Six Months Ended	
		Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Currency forwards	Interest and other, net	\$(7)	\$(6)	\$(22)	\$50
Currency interest rate swaps	Interest and other, net	26	(44)	(28)	56
Interest rate swaps	Interest and other, net	(4)	3	(4)	3
Total return swaps	Various	45	(19)	58	29
Other	Gains (losses) on equity investments, net	1	5	2	7
Total		\$61	\$(61)	\$6	\$145

## Note 7: Acquisitions

During the first six months of 2014, we completed four acquisitions qualifying as business combinations in exchange for aggregate net cash consideration of \$137 million, most of which was allocated to goodwill. For information on the assignment of goodwill to our operating segments, see "Note 9: Goodwill." The completed acquisitions in the first six months of 2014, both individually and in the aggregate, were not significant to our results of operations.

## Note 8: Divestitures

During the first quarter of 2014, we completed the divestiture of our Intel Media assets, a business division dedicated to the development of cloud TV products and services, to Verizon Communications Inc. As a result of the transaction, we received aggregate net cash consideration of \$150 million, presented within investing activities on the consolidated condensed statements of cash flows, and recognized a gain within interest and other, net on the consolidated condensed statements of income.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

## Note 9: Goodwill

Goodwill activity for the first six months of 2014 was as follows:

(In Millions)	Dec 28, 2013	Additions Due to Acquisitions	Transfers	Effect of Exchange Rate Fluctuations and Other	Jun 28, 2014
PC Client Group	\$3,058	\$—	\$—	\$—	\$3,058
Data Center Group	1,831	8	138	—	1,977
Internet of Things Group	—	—	428	—	428
Mobile and Communications Group	—	19	631	—	650
Other Intel architecture operating segments	1,075	—	(1,075)	—	—
Software and services operating segments	4,549	—	(140)	(2)	4,407
All other	—	101	18	(18)	101
Total	\$10,513	\$128	\$—	\$(20)	\$10,621

In the first quarter of 2014, we formed the Internet of Things Group and we changed our organizational structure to align with our critical objectives, which included the addition of Mobile and Communication Group as a reportable operating segment. For further information, see "Note 22: Operating Segments Information." Due to this reorganization, goodwill was allocated from our prior reporting units to our new reporting units, as shown in the preceding table within "transfers." The allocation was based on the fair value of each business group within its original reporting unit relative to the fair value of that reporting unit.

## INTEL CORPORATION

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

## Note 10: Identified Intangible Assets

Identified intangible assets at the end of each period were as follows:

(In Millions)	June 28, 2014		
	Gross Assets	Accumulated Amortization	Net
Acquisition-related developed technology	\$2,924	\$(1,982)	) \$942
Acquisition-related customer relationships	1,759	(966)	) 793
Acquisition-related trade names	65	(50)	) 15
Licensed technology and patents	3,088	(1,088)	) 2,000
Identified intangible assets subject to amortization	7,836	(4,086)	) 3,750
Acquisition-related trade names	817	—	817
Other intangible assets	130	—	130
Identified intangible assets not subject to amortization	947	—	947
Total identified intangible assets	\$8,783	\$(4,086)	) \$4,697

(In Millions)	December 28, 2013		
	Gross Assets	Accumulated Amortization	Net
Acquisition-related developed technology	\$2,922	\$(1,691)	) \$1,231
Acquisition-related customer relationships	1,760	(828)	) 932
Acquisition-related trade names	65	(44)	) 21
Licensed technology and patents	3,093	(974)	) 2,119
Identified intangible assets subject to amortization	7,840	(3,537)	) 4,303
Acquisition-related trade names	818	—	818
Other intangible assets	29	—	29
Identified intangible assets not subject to amortization	847	—	847
Total identified intangible assets	\$8,687	\$(3,537)	) \$5,150

For identified intangible assets that are subject to amortization, we recorded amortization expense on the consolidated condensed statements of income as follows: amortization of acquisition-related developed technology and licensed technology and patents is included in cost of sales, amortization of acquisition-related customer relationships and trade names is included in amortization of acquisition-related intangibles, and amortization of other intangible assets is recorded as a reduction of revenue.

Amortization expenses for each period were as follows:

(In Millions)	Three Months Ended		Six Months Ended	
	Jun 28, 2014	Jun 29, 2013	Jun 28, 2014	Jun 29, 2013
Acquisition-related developed technology	\$147	\$140	\$293	\$280
Acquisition-related customer relationships	69	68	139	138
Acquisition-related trade names	3	2	6	5
Licensed technology and patents				