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

Our Management's Discussion and Analysis of Financial Condition and Results of Operation (MD&A) is provided in addition to the accompanying consolidated financial statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. MD&A is organized as follows:

- *Overview.* Discussion of our business and overall analysis of financial and other highlights affecting the company in order to provide context for the remainder of MD&A.
- *Strategy.* Overall strategy and the strategy for our operating segments.
- *Critical Accounting Estimates.* Accounting estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.
- *Results of Operations.* An analysis of our financial results comparing 2007 to 2006 and comparing 2006 to 2005.
- *Liquidity and Capital Resources.* An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition.
- *Business Outlook.* Our forecasts for selected data points for the 2008 fiscal year.

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 15, 2008, with the exception of the Numonyx transaction. Our forward-looking statements for 2008 reflect the expectation that the Numonyx transaction will close during the first quarter.

Overview

We make, market, and sell advanced integrated digital technology products, primarily integrated circuits, for industries such as computing and communications. Integrated circuits are semiconductor chips etched with interconnected electronic switches. Our goal is to be the preeminent provider of semiconductor chips and platforms for the worldwide digital economy. Our products include chips, boards, and other semiconductor products that are the building blocks integral to computers, servers, consumer electronics and handheld devices, and networking and communications products. Our primary component-level products include microprocessors, chipsets, and flash memory. We offer products at various levels of integration, allowing our customers the flexibility to create advanced computing and communications systems and products.

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. Our failure to respond quickly to technological developments and incorporate new features into our products could harm our ability to compete. Maintaining scale is key to our strategy of ramping new manufacturing technologies and platforms quickly, delivering high-performance products, and lowering unit costs.

As of December 29, 2007, our operating segments included the Digital Enterprise Group, Mobility Group, NAND Products Group, Flash Memory Group, Digital Home Group, Digital Health Group, and Software Solutions Group.

Net revenue, gross margin, and operating income for 2007 and 2006 were as follows:

(In Millions)	2007	2006
Net revenue	$ 38,334	$ 35,382
Gross margin	$ 19,904	$ 18,218
Operating income	$ 8,216	$ 5,652

Overall microprocessor revenue continues to grow, and we continue to see a shift in our sales mix from desktop microprocessors to mobile microprocessors. Microprocessor revenue within the Mobility Group operating segment increased by 16% in 2007 compared to 2006. The growth in mobile microprocessors has outpaced the growth in desktop microprocessors, and we believe this trend will continue, with a crossover occurring as early as 2009. As demand for mobile microprocessors continues to grow in the PC market segment, system price points have expanded to include new lower prices. We expect continuing erosion in average selling prices for mobile microprocessors due to this expansion in lower price points and a continued competitive market segment. However, mobile microprocessor average selling prices remain higher than desktop microprocessor average selling prices, and therefore the shift in our mix to mobile microprocessors has a positive effect on our results. Due to the 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.

The gross margin percentage was relatively flat in 2007 compared to 2006. During 2007, gross margin benefited from lower microprocessor unit costs as well as a mix shift toward higher margin businesses. The decline in unit costs has been possible as we continued to gain production experience on our 65nm process technology. In addition, we are running our factories at high volumes. However, during 2007 our gross margin was negatively impacted by declining average selling prices as well as higher start-up costs related to our 45nm process technology.

Our operating income grew faster than revenue during 2007 as we continued to implement our restructuring program and focused on our commitment to efficiency and on spending controls. As a result, R&D and marketing, general and administrative expenses as a percentage of revenue decreased from 34% in 2006 to 29% in 2007, and the number of employees decreased by 8% compared to the end of 2006. Results for 2007 included restructuring and asset impairment charges of $516 million, and to date we have incurred $1.1 billion in charges related to the program, which began in the third quarter of 2006. We expect to continue the program in 2008, and expect charges to decline in the second half of the year. As part of the restructuring program, we divested some of our lower margin businesses, and we expect to divest our NOR flash memory assets in the first quarter of 2008. As a result of these divestitures, we expect a negative impact on revenue and a benefit to our gross margin percentage in 2008. Our efficiency efforts have also contributed to faster factory throughput, higher yields, and improved equipment utilization. Improvements in our equipment utilization helped enable us to reduce our capital spending from $5.9 billion in 2006 to $5.0 billion in 2007.

The combination of our technological innovation and our renewed commitment to customer orientation has differentiated our products and technology from our competition and has contributed to our revenue growth, which occurred in nearly all product lines and across all geographies. We are setting the pace for innovation within the industry by executing on our plan to introduce a new microarchitecture approximately every two years and to ramp the next generation of silicon process technology in the intervening years. In 2007, we completed our transition to the Intel Core microarchitecture, initially launched in 2006, in all market segments. We also started manufacturing microprocessors using our industry-leading 45nm Hi-k metal gate silicon technology, which enables higher and more energy-efficient processor performance. Our next-generation microarchitecture is scheduled for production in the second half of 2008; and we are also developing our next-generation 32nm process technology and expect to begin manufacturing products using that technology in 2009.

From a financial condition perspective, we ended 2007 with an investment portfolio valued at $19.3 billion, consisting of cash and cash equivalents, fixed-income debt instruments included in trading assets, and short- and long-term investments. During 2007, we repurchased $2.75 billion of stock through our stock repurchase program and paid $2.6 billion to stockholders as dividends.

We exited 2007 with what we believe is the strongest combination of products, manufacturing, and silicon technology leadership in our history as we continue to ramp our 45nm process technology and plan to introduce our next-generation microarchitecture in 2008. Also in 2008, we plan to introduce products geared to future growth markets. Specifically, we plan to introduce new microprocessors, code-named "Silverthorne," that are designed for notebooks, low-power and low-cost products, MIDs, and consumer electronics devices. In addition to our microprocessor and chipset development, we expect to make significant investments in R&D in 2008 in growth areas such as system-on-a-chip, MIDs, embedded applications, consumer electronics, and graphics. Although there is uncertainty in the global economy, we are planning for another year of growth in which profits grow faster than revenue and our investments in products, manufacturing, and silicon technology continue to generate competitive advantages.

Strategy

Our goal is to be the preeminent provider of semiconductor chips and platforms for 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. We believe that we have the scale, capacity, and global reach to establish new technologies and respond to customers' needs quickly.

Some of our key focus areas are listed below:

- *Customer Orientation.* Our strategy focuses on developing our next generation of products based on the needs and expectations of our customers. In turn, our products help enable the design and development of new form factors and usage models for businesses and consumers. We offer platforms with ingredients designed and configured to work together to provide an optimized user computing solution compared to ingredients that are used separately.
- *Energy-Efficient Performance.* We believe that users of computing and communications systems and devices want improved overall and energy-efficient performance. Improved overall performance can include faster processing performance and other capabilities such as multithreading and multitasking. Performance can also be improved through enhanced connectivity, security, manageability, reliability, ease of use, and interoperability among devices. Improved energy-efficient performance involves balancing the addition of these and other types of improved performance factors with lower power consumption. Our microprocessors have one, two, or four processor cores, and we continue to develop processors with an increasing number of cores, which enable improved multitasking and energy efficiency.
- *Design and Manufacturing Technology Leadership.* Our strategy for developing microprocessors with improved performance is to synchronize the introduction of a 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. We refer to this as our "tick-tock" technology development cadence. For more information, see "Research and Development" in Part I, Item 1 of this Form 10-K.
- *Strategic Investments.* We make equity investments in companies around the world to further our strategic objectives and to 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. Our current investment focus areas include those that we believe help to enable mobile wireless devices, advance the digital home, enhance the digital enterprise, advance high-performance communications infrastructures, and develop the next generation of silicon process technologies. Our focus areas tend to develop and change over time due to rapid advancements in technology.
- *Business Environment and Software.* We plan to continue to cultivate new businesses and work to encourage the industry to offer products that take advantage of the latest market trends and usage models. 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. Lastly, through our Software and Solutions Group, we help enable and advance the computing ecosystem by developing value-added software products and services.

We believe that the proliferation of the Internet, including user demand for premium content and rich media, is the primary driver of the need for greater performance in PCs and servers. A growing number of older PCs are increasingly incapable of handling the tasks that users are demanding, such as streaming video, uploading photos, and online gaming. As these tasks become even more demanding and require more computing power, we believe that users will need and want to buy new PCs to perform everyday tasks on the Internet. We also believe that increased Internet traffic is creating a need for greater server infrastructure, including server products optimized for energy-efficient performance.

We have experienced an overall shift in sales mix from desktop microprocessors to mobile microprocessors. We believe that, based on customer demand and market trends, mobile microprocessor shipments will exceed desktop microprocessor shipments as early as 2009. Mobile microprocessors generally have higher average selling prices compared to desktop microprocessors, so the continued shift in sales mix to mobile microprocessors is expected to positively impact our revenue. Therefore, our strategy focuses on advancing mobile microprocessors to accelerate this shift in sales mix.

We are investing in areas in which we believe the application of highly integrated Intel® architecture provides growth opportunities, such as scalable, high-performance visual computing solutions that integrate vivid graphics and supercomputing performance for scientific, financial services, and other compute-intensive applications. In addition, our design and manufacturing technology leadership, including the recent introduction of our new 45nm process technology, allows us to develop low-cost, low-power microprocessors for new uses and form factors. We believe that these new microprocessors will give us the ability to extend Intel architecture and drive growth in new market segments, including MIDs, a new category of small, mobile consumer devices enabling a PC-like Internet experience; consumer electronics devices, which will deliver media and services to set-top boxes and TVs over broadband Internet connections; and ultra-low-cost PCs designed for emerging markets. We believe that the common elements for products in these new market segments are low power, low cost, and the ability to access the Internet.

Strategy by Operating Segment

Our ***Digital Enterprise Group*** (DEG) offers computing and communications products for businesses, service providers, and consumers. DEG products are incorporated into desktop computers, enterprise computer servers, workstations, and products that make up the infrastructure for the Internet. We also offer products for embedded designs, such as industrial equipment, point-of-sale systems, panel PCs, automotive information/entertainment systems, and medical equipment. Within DEG, our largest market segments are in desktop and enterprise computing. Our strategy for the desktop computing market segment is to offer products that provide increased manageability, security, and energy-efficient performance while at the same time lowering total cost of ownership for businesses. Our strategy for the enterprise computing market segment is to offer products that provide energy-efficient performance, ease of use, manageability, reliability, and security for entry-level to high-end servers and workstations.

The strategy for our ***Mobility Group*** is to offer notebook PC products designed to improve performance, battery life, and wireless connectivity, as well as to allow for the design of smaller, lighter, and thinner form factors. We are also increasing our focus on notebooks designed for the business environment by offering products that provide increased manageability and security, and we continue to invest in the build-out of WiMAX. For the ultra-mobile market segment, we offer energy-efficient products that are designed primarily for mobile processing of digital content and Internet access, and we are developing new products to support this evolving market segment, including products for MIDs and ultra-mobile PCs.

The strategy for our ***NAND Products Group*** is to offer advanced NAND flash memory products, primarily used in digital audio players, memory cards, and system-level applications, such as solid-state drives. In support of our strategy to provide advanced flash memory products, we continue to focus on the development of innovative products designed to address the needs of customers for reliable, non-volatile, low-cost, high-density memory.

For the ***Flash Memory Group***, we expect to complete the divestiture of our NOR flash memory assets to Numonyx during the first quarter of 2008. We expect to enter into supply and transition service agreements to provide products, services, and support to Numonyx following the close of the transaction. See "Note 13: Divestitures" in Part II, Item 8 of this Form 10-K.

The strategy for our ***Digital Home Group*** is to offer products for use in PCs and in-home consumer electronics devices designed to access and share Internet, broadcast, optical media, and personal content through a variety of linked digital devices within the home. We are focusing on the design of components for high-end enthusiast PCs, mainstream PCs with rich audio and video capabilities, and consumer electronic devices such as digital TVs, high-definition media players, and set-top boxes.

The strategy for our ***Digital Health Group*** is to design and deliver technology-enabled products and explore global business opportunities in healthcare information technology, healthcare research, and productivity, as well as personal healthcare. In support of this strategy, we are focusing on the design of technology solutions and platforms for the digital hospital and consumer/home health products.

The strategy for our ***Software and Solutions Group*** (SSG) is to promote Intel architecture as the platform of choice for software and services. SSG works with the worldwide software and services ecosystem by providing software products, engaging with developers, and driving strategic software investments.

Critical Accounting Estimates

The methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on the results that we report in our financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Our most critical accounting estimates include:

- the valuation of non-marketable equity investments, which impacts net gains (losses) on equity investments when we record impairments;
- 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 recognition and measurement of current and deferred income tax assets and liabilities (including the measurement of uncertain tax positions), which impact our tax provision;
- the valuation of inventory, which impacts gross margin; and
- the valuation and recognition of share-based compensation, which impact gross margin; R&D 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 Investments

We regularly invest in non-marketable equity investments of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies with established revenue streams and business models. The carrying value of our non-marketable equity investment portfolio, excluding equity derivatives, totaled $3.4 billion at December 29, 2007 ($2.8 billion at December 30, 2006) and included our investment in IMFT of $2.2 billion ($1.3 billion at December 30, 2006). Our non-marketable equity investments are classified in other long-term assets on the consolidated balance sheets.

Non-marketable equity investments 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 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 our investments would likely become impaired.

We review our investments quarterly for indicators of impairment; however, for non-marketable equity investments, the impairment analysis requires significant judgment to identify events or circumstances that would significantly harm the fair value of the investment. The indicators that we use to identify those events or circumstances include:

- the investee's revenue and earnings trends relative to predefined milestones and overall business prospects;
- the technological feasibility of the investee's products and technologies;
- the general market conditions in the investee's industry or geographic area, including adverse regulatory or economic changes;
- factors related to the investee's ability to remain in business, such as the investee's liquidity, debt ratios, and the rate at which the investee is using its cash; and
- the investee's receipt of additional funding at a lower valuation. If an investee obtains additional funding at a valuation lower than our carrying amount or a new round of equity funding is required for the investee to remain in business, and the new round of equity does not appear imminent, it is presumed that the investment is other than temporarily impaired, unless specific facts and circumstances indicate otherwise.

Investments that we identify as having an indicator of impairment are subject to further analysis to determine if the investment is other than temporarily impaired, in which case we write down the investment to its estimated fair value. For non-marketable equity investments that we do not consider viable from a financial or technological point of view, we write down the entire investment, since we consider the estimated fair value to be nominal. Over the past 12 quarters, including the fourth quarter of 2007, impairments of non-marketable equity investments have ranged between $10 million and $44 million per quarter.

Long-Lived Assets

We assess the impairment of long-lived assets 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 comparing the difference between the asset grouping's carrying amount and its fair value, based on the best information available, including market prices or discounted cash flow analysis.

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, we accelerate the rate of depreciation over the assets' new, shorter useful lives. Over the past 12 quarters, including the fourth quarter of 2007, impairments and accelerated depreciation of long-lived assets have ranged between $1 million and $320 million per quarter. This range includes restructuring charges for asset impairments between zero and $317 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, benefits, and deductions, 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, as well as the interest and penalties related to these uncertain tax positions. 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 we will ultimately recover a substantial majority of the deferred tax assets recorded on our consolidated balance sheets. 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 likely.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. In the first quarter of 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109" (FIN 48), and related guidance (see "Note 17: Taxes" in Part II, Item 8 of this Form 10-K). As a result of the implementation of FIN 48, we recognize liabilities for uncertain tax positions based on the two-step process prescribed in the interpretation. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

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. The demand forecast is included in the development of our short-term manufacturing plans to 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 forecast the demand accurately, we could be required to write off inventory, which would negatively impact our gross margin.

Share-Based Compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Shared-Based Payment" (SFAS No. 123(R)). SFAS No. 123(R) requires employee equity awards to be accounted for under the fair value method. Total share-based compensation during 2007 was $952 million ($1.4 billion in 2006). 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 require 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. Changes in the expected dividend rate and expected risk-free rate of return do not significantly impact the calculation of fair value, and determining these inputs is not highly subjective.

We use implied volatility based on freely traded options 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 following:

- 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 freely traded options 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 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.

Due to significant differences in the vesting terms and contractual life of current option grants compared to the majority of our historical grants, management does not believe that our historical share option exercise data provides us with sufficient evidence to estimate expected term. Therefore, we use the simplified method of calculating expected life described in the SEC's Staff Accounting Bulletin 107 (SAB 107). In December 2007, the SEC issued Staff Accounting Bulletin 110 (SAB 110) to amend the SEC's views discussed in SAB 107 regarding the use of the simplified method in developing an estimate of expected life of share options in accordance with SFAS No. 123(R). SAB 110 is effective for us beginning in the first quarter of fiscal year 2008. We will continue to use the simplified method until we have the historical data necessary to provide a reasonable estimate of expected life, in accordance with SAB 107, as amended by SAB 110.

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 option awards and the increase in total fair value during 2007 and 2006 were as follows:

	2007		2006	
	Weighted Average Fair Value Per Share	Increase in Total Fair Value[1] (In Millions)	Weighted Average Fair Value Per Share	Increase in Total Fair Value[1] (In Millions)
As reported	$ 5.79		$ 5.21	
Hypothetical:				
Increase expected volatility by 5 percentage points[2]	$ 6.56	$ 20	$ 5.92	$ 36
Increase expected life by 1 year	$ 6.24	$ 12	$ 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 26% reported volatility for 2007 to a hypothetical 31% 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 adjustments in the estimated forfeiture rates can have a significant effect on reported share-based compensation, as we recognize the cumulative effect of the rate adjustments for all expense amortization after January 1, 2006 in the period in which the estimated forfeiture rates are adjusted. 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 our previously estimated forfeiture rate, we make an adjustment that will result in a decrease in the expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, we make an adjustment that will result in an increase in the expense recognized in the financial statements. These adjustments affect our gross margin; R&D expenses; and marketing, general and administrative expenses. The effect of forfeiture adjustments in 2006 and 2007 was insignificant. We record cumulative adjustments to the extent that the related expense is recognized in the financial statements, beginning with implementation of SFAS No. 123(R) in the first quarter of 2006. Therefore, the potential impact from cumulative forfeiture adjustments will increase in future periods. The expense that we recognize in future periods could also differ significantly from the current period and from our forecasts due to adjustments in the assumed forfeiture rates.

Recent Accounting Pronouncements and Accounting Changes

See "Note 2: Accounting Policies" in Part II, Item 8 of this Form 10-K for a description of accounting changes and recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements.

Results of Operations

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

	2007		2006		2005	
(Dollars in Millions, Except Per Share Amounts)	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
Net revenue	**$38,334**	**100.0%**	**$35,382**	**100.0%**	**$38,826**	**100.0%**
Cost of sales	18,430	48.1%	17,164	48.5%	15,777	40.6%
Gross margin	**19,904**	**51.9%**	**18,218**	**51.5%**	**23,049**	**59.4%**
Research and development	5,755	15.0%	5,873	16.6%	5,145	13.3%
Marketing, general and administrative	5,401	14.1%	6,096	17.2%	5,688	14.7%
Restructuring and asset impairment charges	516	1.3%	555	1.6%	—	—
Amortization of acquisition-related intangibles and costs	16	0.1%	42	0.1%	126	0.3%
Operating income	**8,216**	**21.4%**	**5,652**	**16.0%**	**12,090**	**31.1%**
Gains (losses) on equity investments, net	157	0.4%	214	0.6%	(45)	(0.1)%
Interest and other, net	793	2.1%	1,202	3.4%	565	1.5%
Income before taxes	**9,166**	**23.9%**	**7,068**	**20.0%**	**12,610**	**32.5%**
Provision for taxes	2,190	5.7%	2,024	5.7%	3,946	10.2%
Net income	**$ 6,976**	**18.2%**	**$ 5,044**	**14.3%**	**$ 8,664**	**22.3%**
Diluted earnings per share	**$ 1.18**		**$ 0.86**		**$ 1.40**	

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

	2007		2006		2005	
(Dollars in Millions)	Dollars	% of Total	Dollars	% of Total	Dollars	% of Total
Asia-Pacific	$19,432	51%	$17,477	49%	$19,330	50%
Americas	7,715	20%	7,512	21%	7,574	19%
Europe	7,262	19%	6,587	19%	8,210	21%
Japan	3,925	10%	3,806	11%	3,712	10%
Total net revenue	**$38,334**	**100%**	**$35,382**	**100%**	**$38,826**	**100%**

Our net revenue was $38.3 billion in 2007, an increase of 8% compared to 2006. Higher microprocessor unit sales were partially offset by lower microprocessor average selling prices. Higher mobile chipset unit sales also contributed to the increase in net revenue.

Lower NOR flash memory revenue was mostly offset by the ramp of our NAND flash memory business. The decrease in NOR flash memory revenue was due to a significant decline in average selling prices. Lower royalty revenue was offset by higher unit sales.

Revenue in the Asia-Pacific region increased 11% and revenue in the Europe region increased 10% in 2007 compared to 2006, and revenue in both the Americas region and Japan increased 3% in 2007 compared to 2006. Revenue from both mature and emerging markets increased in 2007 compared to 2006. While the revenue in mature markets increased in all four geographic regions, the majority of the growth in revenue occurred in the Asia-Pacific region. A substantial majority of the increase in emerging markets also occurred in the Asia-Pacific region.

Our overall gross margin dollars for 2007 were $19.9 billion, an increase of $1.7 billion, or 9%, compared to 2006. Our overall gross margin percentage was relatively flat at 51.9% in 2007 compared to 51.5% in 2006. The gross margin percentage increase in the Digital Enterprise Group operating segment was mostly offset by a decrease in the gross margin percentage in the Mobility Group operating segment and costs associated with the ramp of our NAND flash memory business. We derived most of our overall gross margin dollars and operating profit in 2007 and 2006 from the sale of microprocessors in the Digital Enterprise Group and Mobility Group operating segments. See "Business Outlook" for a discussion of gross margin expectations.

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 from sales of NOR flash memory products decreased in 2006 compared to 2005, primarily due to lower average selling prices, partially offset by higher royalty revenue. In 2006, we began shipping NAND flash memory products manufactured by IMFT.

Revenue in the Asia-Pacific region decreased 10% and revenue in the Europe region decreased 20% in 2006 compared to 2005. These decreases were slightly offset by revenue in Japan, which increased slightly in 2006 compared to 2005. Revenue in the Americas region was approximately flat in 2006 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. We derived most of our overall gross margin dollars in 2006 and 2005 from the sale of microprocessors in the Digital Enterprise Group and Mobility Group operating segments. The 2006 gross margin included the impact 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.

Digital Enterprise Group

The revenue and operating income for the Digital Enterprise Group (DEG) for the three years ended December 29, 2007 were as follows:

(In Millions)	2007	2006	2005
Microprocessor revenue	$ 15,234	$ 14,606	$ 19,412
Chipset, motherboard, and other revenue	5,106	5,270	5,725
Net revenue	**$ 20,340**	**$ 19,876**	**$ 25,137**
Operating income	**$ 5,169**	**$ 3,510**	**$ 9,020**

Net revenue for the DEG operating segment increased by $464 million, or 2%, in 2007 compared to 2006. Microprocessors within DEG include microprocessors designed for the desktop and enterprise computing market segments as well as embedded microprocessors. The increase in microprocessor revenue was due to higher microprocessor unit sales and higher enterprise average selling prices. These increases were partially offset by lower desktop average selling prices in a competitive pricing environment. The decrease in chipset, motherboard, and other revenue was due to lower motherboard unit sales as well as a decrease in communications infrastructure revenue, which is primarily due to divestitures of certain communications infrastructure businesses that were completed in 2006 and 2007. Partially offsetting these decreases was higher chipset revenue.

Operating income increased by $1.7 billion, or 47%, in 2007 compared to 2006. The increase in operating income was primarily due to lower desktop microprocessor unit costs and lower operating expenses, and to a lesser extent, sales of desktop microprocessor inventory that had been previously written off. Partially offsetting these increases were higher chipset unit costs and approximately $425 million of higher start-up costs, primarily related to our 45nm process technology. In 2007, we began including shared-based compensation in the computation of operating income (loss) for each operating segment and adjusted the 2006 operating segment results to reflect this change.

For 2006, net revenue for the DEG operating segment decreased by $5.3 billion, or 21%, 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 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.

Operating income decreased by $5.5 billion, or 61%, 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 2006 included the recognition of share-based compensation. Results for 2005 did not include share-based compensation. Results for 2005 included a charge related to a settlement agreement with MicroUnity.

Mobility Group

The revenue and operating income for the Mobility Group (MG) for the three years ended December 29, 2007 were as follows:

(In Millions)	**2007**	**2006**	**2005**
Microprocessor revenue	$ 10,660	$ 9,212	$ 8,704
Chipset and other revenue	4,021	3,097	2,427
Net revenue	**$ 14,681**	**$ 12,309**	**$ 11,131**
Operating income	**$ 5,606**	**$ 4,595**	**$ 5,335**

Net revenue for the MG operating segment increased by $2.4 billion, or 19%, in 2007 compared to 2006. Microprocessor revenue increased by $1.4 billion, or 16%, in 2007 compared to 2006, while chipsets and other revenue increased by $924 million, or 30%, in 2007 compared to 2006. The increase in microprocessor revenue was due to a significant increase in unit sales, partially offset by significantly lower average selling prices. The increase in chipset and other revenue was due to higher unit sales of chipsets, and to a lesser extent, higher revenue from sales of cellular baseband products. In the fourth quarter of 2006, we sold certain assets of the business line that included application and cellular baseband processors used in handheld devices; however, in 2007 we continued to manufacture and sell these products as part of a manufacturing and transition services agreement.

Operating income increased by $1.0 billion, or 22%, in 2007 compared to 2006. The increase in operating income was primarily due to higher revenue. Lower microprocessor unit costs were more than offset by approximately $330 million of higher start-up costs, primarily related to our 45nm process technology. Lower unit costs on wireless connectivity and cellular baseband products were offset by higher chipset unit costs. Operating expenses were higher in 2007 compared to 2006; however, operating expenses as a percentage of revenue decreased in 2007 compared to 2006.

For 2006, net revenue for the MG operating segment increased by $1.2 billion, or 11%, 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 increased sales of our Intel Centrino processor technologies.

Operating income decreased by $740 million, or 14%, in 2006 compared to 2005. The decline was primarily caused by higher operating expenses, due in part to the recognition of share-based compensation. Results for 2005 did not include share-based compensation. 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.

Operating Expenses

Operating expenses for the three years ended December 29, 2007 were as follows:

(In Millions)	2007	2006	2005
Research and development	$ 5,755	$ 5,873	$ 5,145
Marketing, general and administrative	$ 5,401	$ 6,096	$ 5,688
Restructuring and asset impairment charges	$ 516	$ 555	$ —
Amortization of acquisition-related intangibles and costs	$ 16	$ 42	$ 126

Research and Development. R&D spending decreased $118 million, or 2%, in 2007 compared to 2006, and increased $728 million, or 14%, in 2006 compared to 2005. The decrease in 2007 compared to 2006 was primarily due to lower process development costs as we transitioned from R&D to manufacturing using our 45nm process technology, partially offset by higher profit-dependent compensation. The increase in 2006 compared to 2005 was primarily due to share-based compensation resulting from the implementation of SFAS No. 123(R) in 2006, and to a lesser extent, higher development costs driven by our 45nm process technology.

Marketing, General and Administrative. Marketing, general and administrative expenses decreased $695 million, or 11%, in 2007 compared to 2006, and increased $408 million, or 7%, in 2006 compared to 2005. The decrease in 2007 compared to 2006 was primarily due to lower headcount, lower share-based compensation, and lower cooperative advertising expenses, partially offset by higher profit-dependent compensation. The increase in 2006 compared to 2005 was primarily due to share-based compensation resulting from the implementation of SFAS No. 123(R) in 2006, and to a lesser extent, higher headcount. Partially offsetting these increases were lower marketing program spending and lower profit-dependent compensation.

R&D along with marketing, general and administrative expenses were 29% of net revenue in 2007, 34% of net revenue in 2006, and 28% of net revenue in 2005. Fiscal year 2005 included 53 weeks. The percentage decline in 2007 compared to 2006 is an indication of our progress toward improving our cost structure and efficiency as we grew revenue at a faster rate than operating expenses.

Restructuring and Asset Impairment Charges. In the third quarter of 2006, management approved several actions that were recommended by our structure and efficiency task force as part of a restructuring plan designed to improve operational efficiency and financial results. Some of these activities involve 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 these targets are being met through ongoing employee attrition and terminations. In addition, business divestitures further reduce our headcount.

Restructuring and asset impairment charges for the three years ended December 29, 2007 were as follows:

(In Millions)	2007	2006	2005
Employee severance and benefit arrangements	$ 289	$ 238	$ —
Asset impairments	227	317	—
Total restructuring and asset impairment charges	**$ 516**	**$ 555**	**$ —**

During 2006, we completed the divestiture of three businesses concurrently with the ongoing execution of our efficiency program. See "Note 13: Divestitures" in Part II, Item 8 of this Form 10-K for further discussion. In connection with the divestiture of certain assets of our communications and application processor business, we recorded impairment charges of $103 million related to the write-down of manufacturing tools to their fair value, less the cost to dispose of the assets. We determined the fair value using a market-based valuation technique. In addition, as a result of both this divestiture and a subsequent assessment of our worldwide manufacturing capacity operations, we placed for sale our fabrication facility in Colorado Springs, Colorado. This plan resulted in an impairment charge of $214 million to write down to fair value the land, building, and equipment asset grouping that has been principally used to support our communications and application processor business. We determined the fair market value of the asset grouping using an average of the results from using the cost approach and market approach valuation techniques.

During 2007, we incurred an additional $54 million in asset impairment charges as a result of softer than anticipated market conditions related to the Colorado Springs facility. Also, we recorded land and building write-downs related to certain facilities in Santa Clara, California. In addition, during the fourth quarter we incurred $85 million in asset impairment charges related to the anticipated divestiture of our NOR flash memory business. The impairment charges were determined using the revised fair value, less selling costs, that we expected to receive upon completion of the divestiture. See "Note 13: Divestitures" in Part II, Item 8 of this Form 10-K for further information on this divestiture, which is expected to be completed during the first quarter of 2008.

The following table summarizes the restructuring and asset impairment activity for 2006 and 2007:

(In Millions)	Employee Severance and Benefits	Asset Impairments	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**
Additional accruals	299	227	526
Adjustments	(10)	—	(10)
Cash payments	(210)	—	(210)
Non-cash settlements	—	(227)	(227)
Accrued restructuring balance as of December 29, 2007	**$ 127**	**$ —**	**$ 127**

We recorded the additional accruals, net of adjustments, as restructuring and asset impairment charges on the consolidated statements of income. The remaining accrual as of December 29, 2007 was related to severance benefits that we recorded as a current liability within accrued compensation and benefits on the consolidated balance sheets.

From the third quarter of 2006 through the fourth quarter of 2007, we incurred a total of $1.1 billion in restructuring and asset impairment charges related to this plan. These charges included a total of $527 million related to employee severance and benefit arrangements due to the termination of approximately 9,900 employees, of which 7,700 employees had left the company as of December 29, 2007. A substantial majority of these employee terminations affected employees within manufacturing, information technology, and marketing. Of the employee severance and benefit charges incurred as of December 29, 2007, we had paid $400 million. The restructuring and asset impairment charges also included $544 million in asset impairment charges.

We estimate that employee severance and benefit charges to date will result in gross annual savings of approximately $1.0 billion, a portion of which we began to realize in the third quarter of 2006. We are realizing these savings within marketing, general and administrative expenses, cost of sales, and R&D. Our outlook for the first quarter of 2008 is for additional restructuring and asset impairment charges of $100 million. We may incur additional restructuring charges in the future for employee severance and benefit arrangements, as well as facility-related or other exit activities.

Amortization of Acquisition-Related Intangibles and Costs. Amortization of acquisition-related intangibles and costs was $16 million in 2007 ($42 million in 2006 and $126 million in 2005). 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.

Gains (losses) on Equity Investments, Interest and Other, and Provision for Taxes

Gains (losses) on equity investments, net; interest and other, net; and provision for taxes for the three years ended December 29, 2007 were as follows:

(In Millions)	2007	2006	2005
Gains (losses) on equity investments, net	$ 157	$ 214	$ (45)
Interest and other, net	$ 793	$ 1,202	$ 565
Provision for taxes	$ (2,190)	$ (2,024)	$ (3,946)

Net gains on equity investments were $157 million in 2007 compared to $214 million in 2006. During 2007, we recognized higher losses from our equity method investments, primarily from our investment in Clearwire Corporation. In addition, we recognized higher impairment charges, partially offset by higher gains on sales of equity investments and other equity transactions. Impairment charges were $120 million in 2007.

Net gains on equity investments were $214 million in 2006 compared to net losses of $45 million in 2005. During 2006, we recognized higher gains on sales of equity investments and lower impairment charges compared to 2005. Net gains on equity investments in 2006 included the gain of $103 million on the sale of a portion of our investment in Micron, which was sold for $275 million. Impairment charges were $79 million in 2006 compared to $208 million in 2005. During 2005, impairment charges included a $105 million impairment charge on our investment in Micron.

Interest and other, net decreased to $793 million in 2007 compared to $1.2 billion in 2006, primarily due to lower divestiture gains, partially offset by higher interest income resulting primarily from higher average investment balances, and to a lesser extent higher interest rates. 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 divestitures (see "Note 13: 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 average investment balances.

Our effective income tax rate was 23.9% in 2007 (28.6% in 2006 and 31.3% in 2005). The rate decreased in 2007 compared to 2006, primarily due to the reversal of previously accrued taxes of $481 million (including $50 million of accrued interest) related to settlements with the U.S. Internal Revenue Service in the first and second quarters of 2007. Our effective income tax rate was lower 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. In 2006, the phasing out of the tax benefit for export sales only slightly increased the effective tax rate compared to 2005, given the decrease in income before taxes.

Share-Based Compensation

Share-based compensation totaled $952 million in 2007, $1.4 billion in 2006, and zero in 2005. Share-based compensation was included in cost of sales and operating expenses. We adopted SFAS No. 123(R) under the modified prospective transition method, effective beginning in 2006. Prior to the 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" and related interpretations. Accordingly, no share-based compensation was recognized in net income. The decrease in share-based compensation from 2006 to 2007 was a result of fewer equity awards vesting in 2007 compared to 2006.

As of December 29, 2007, unrecognized share-based compensation costs and the weighted average periods over which the costs are expected to be recognized were as follows:

(Dollars in Millions)	Unrecognized Share-Based Compensation Costs	Weighted Average Period
Stock options	$ 524	1.1 years
Restricted stock units	$ 707	1.6 years
Stock purchase plan	$ 16	1 month

Liquidity and Capital Resources

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)	Dec. 29, 2007	Dec. 30, 2006
Cash, short-term investments, and fixed-income debt instruments included in trading assets	$ 14,871	$ 9,552
Short-term and long-term debt	$ 2,122	$ 2,028
Debt as % of stockholders' equity	5.0%	5.5%

In summary, our cash flows were as follows:

(In Millions)	2007	2006	2005
Net cash provided by operating activities	$ 12,625	$ 10,632	$ 14,851
Net cash used for investing activities	(9,926)	(4,988)	(6,415)
Net cash used for financing activities	(1,990)	(6,370)	(9,519)
Net increase (decrease) in cash and cash equivalents	**$ 709**	**$ (726)**	**$ (1,083)**

Operating Activities

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities. For 2007 compared to 2006, the increase in cash provided by operating activities was primarily due to higher net income. Changes to working capital in 2007 from 2006 were approximately flat, with a decrease in inventory levels in 2007 compared to an increase in 2006, offset by higher purchases of trading assets exceeding maturities. Lower product costs and the reclassification of NOR inventory to held for sale in conjunction with our anticipated divestiture of the NOR flash memory business contributed to the lower inventory balance in 2007. In comparison, our inventory increased in 2006 as a result of higher product costs. In 2007, we began designating floating-rate securitized financial instruments purchased after 2006 as trading assets.

For 2007 and 2006, our two largest customers accounted for 35% of our net revenue. In 2007, one of these customers accounted for 18% of our net revenue (19% in 2006) and another customer accounted for 17% of our net revenue (16% in 2006). Additionally, these two largest customers accounted for 35% of our accounts receivable at December 29, 2007 and December 30, 2006.

For 2006 compared to 2005, the largest contributing factors to the decrease in cash provided by operating activities were 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 $1.4 billion (zero for 2005).

Investing Activities

Investing cash flows consist primarily of capital expenditures and net investment purchases, maturities, and disposals. For 2007 compared to 2006, the increase in cash used for investing activities was primarily due to higher purchases of available-for-sale investments. Lower capital spending was mostly offset by lower proceeds from divestitures.

During 2007, we purchased more available-for-sale investments, particularly short-term, highly liquid investments, as our level of cash available to invest increased. We received lower cash from divestitures: $32 million for one divestiture in 2007 compared to $752 million for three divestitures in 2006 (see "Note 13: Divestitures" in Part II, Item 8 of this Form 10-K). Our capital expenditures were $5.0 billion in 2007 and were primarily for the ramping of our new fabrication facilities. Capital expenditures for fiscal 2008 are currently expected to be approximately $5.2 billion, plus or minus $200 million. Capital expenditures during fiscal 2008 are expected to be funded by cash flows from operating activities. Capital expenditures were $5.9 billion in 2006 and 2005.

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, cash received from divestitures in 2006, and the sale of a portion of our investment in Micron for $275 million. Partially offsetting these impacts, in 2006 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) and a capital contribution of $128 million.

Financing Activities

Financing cash flows consist primarily of repurchases and retirement of common stock, payment of dividends to stockholders, and proceeds from sales of shares through employee equity incentive plans.

For 2007 compared to 2006, the lower cash used in financing activities was primarily due to an increase in proceeds from sales of shares through employee equity incentive plans and a decrease in repurchases and retirement of common stock. Proceeds from sales of shares through employee equity incentive plans totaled $3.1 billion in 2007 compared to $1.0 billion in 2006, due to a higher volume of exercises of stock options because of our stock price trading at higher levels in 2007 compared to 2006, and a higher weighted average exercise price. During 2007, we repurchased 111 million shares of common stock as part of our common stock repurchase program at a cost of $2.75 billion (226 million shares at a cost of $4.6 billion during 2006). As of December 29, 2007, $14.5 billion remained available for repurchase under the existing repurchase authorization of $25 billion. We base our level of stock repurchases on internal cash management decisions, and this level may fluctuate. Our dividend payments for 2007 were $2.6 billion. On January 17, 2008, our Board of Directors declared a cash dividend of $0.1275 per common share for the first quarter of 2008, which represents a 13% increase in our quarterly cash dividend amount.

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.

Liquidity

Cash generated by operations is used as our primary source of liquidity. As of December 29, 2007, we also had an investment portfolio valued at $19.3 billion, consisting of cash and cash equivalents, fixed-income debt instruments included in trading assets, and short- and long-term investments. Substantially all of our investments in debt instruments are with A/A2 or better rated issuers, and the substantial majority of the issuers are rated AA/Aa2 or better. In addition to requiring all investments with original maturities of up to six months to be rated at least A-1/P-1 by Standard & Poors/Moody's, our investment policy specifies a higher minimum rating for investments with longer maturities. For instance, investments with maturities beyond three years require a minimum rating of AA-/Aa3. Government regulations imposed on investment alternatives of our non-U.S. subsidiaries, or the absence of A rated counterparties in certain countries, result in some minor exceptions, which are reviewed annually by the Finance Committee of our Board of Directors. As of December 29, 2007, $9.5 billion of our portfolio had a remaining maturity of less than three months, and a substantial majority of our investments have remaining maturities of two years or less. In 2007, we did not recognize any other-than-temporary impairments on our portfolio of available-for-sale investments. During 2007, $24 million of unrealized losses were recognized related to debt instruments classified as trading assets, and as of December 29, 2007, $62 million of losses were unrealized related to debt instruments classified as available-for-sale. Substantially all of our unrealized losses can be attributed to fair value fluctuations in an unstable credit environment. As of December, 29, 2007, only $125 million of our investments did not comply with our credit guidelines, due to rating downgrades after the initial investment. However, these investments continue to be rated as investment-grade securities.

Our portfolio includes $1.8 billion of asset-backed securities collateralized by first-lien mortgages, credit card debt, student loans, and auto loans. As of December 29, 2007, approximately one-third of our asset-backed securities were collateralized by first-lien mortgages. The mortgage-backed securities have an 80% loan-to-value ratio on average, and they include only first-lien mortgages. The average subordination level of the securities that we held as of December 29, 2007 was 27% (ranging from 18% to 40%), implying that the mortgage pool would have to suffer losses beyond those levels before our securities experience realized losses. In 2007, our asset-backed securities experienced unrealized fair value declines totaling $42 million of which $19 million was recognized in our income statement for those classified under trading assets. As of December 29, 2007, all of our investments in asset-backed securities were rated AAA/Aaa, and the weighted average remaining maturity was less than two years.

We have the intent and ability to hold our debt investments for a sufficient period of time to allow for recovery of the principal amounts invested.

We continually monitor the credit risk in our portfolio and mitigate our credit and interest rate exposures in accordance with the policies approved by our Board of Directors. We intend to continue to closely monitor future developments in the credit markets and make appropriate changes to our investment policy as deemed necessary. Based on our ability to liquidate our investment portfolio and our expected operating cash flows, we do not anticipate any liquidity constraints as a result of the current credit environment.

Another potential source of liquidity is authorized borrowings, including commercial paper, of up to $3.0 billion. There were no borrowings under our commercial paper program during 2007. 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, and potential acquisitions or strategic investments.

Contractual Obligations

The following table summarizes our significant contractual obligations at December 29, 2007:

(In Millions)	Payments Due by Period				
	Total	Less than 1 Year	1–3 years	3–5 years	More than 5 Years
Operating lease obligations	$ 320	$ 95	$ 117	$ 56	$ 52
Capital purchase obligations[1]	2,289	2,283	6	—	—
Other purchase obligations and commitments[2]	1,662	600	925	137	—
Long-term debt obligations[3]	3,653	73	305	133	3,142
Other long-term liabilities[3, 4]	1,444	308	345	187	604
Total[5]	**$ 9,368**	**$ 3,359**	**$ 1,698**	**$ 513**	**$ 3,798**

[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 29, 2007, as we had not yet received the related goods or taken title to the property. Capital purchase obligations decreased from $3.3 billion at December 30, 2006 to $2.3 billion at December 29, 2007, primarily due to the timing of the ramp of our latest silicon process technology.*

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

[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] *Other long-term liabilities includes income taxes payable. Long-term income taxes payable include uncertain tax positions, reduced by the associated federal deduction for state taxes and non-U.S. tax credits, and may also include other long-term tax liabilities that are not uncertain but have not yet been paid. We are unable to reliably estimate the timing of future payments related to uncertain tax positions; therefore, $785 million of income taxes payable has been excluded from the table above.*

[5] *Total excludes 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) and 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.

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 29, 2007 to be approximately as follows: less than one year—$331 million; one to three years—$377 million; three to five years—$2 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/payment 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 29, 2007, 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 our 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 have a contractual obligation to purchase the output of IMFT and IMFS in proportion to our investments, currently 49% in each of these ventures. However, IMFS is in its construction phase and has had no production to date. See "Note 19: Ventures" in Part II, Item 8 of this Form 10-K. Additionally, we have entered into various contractual commitments in relation to our investments in IMFT and IMFS. Some of these commitments are with Micron, and some are directly with IMFT or IMFS. The following are the significant contractual commitments:

- Subject to certain conditions, Intel and Micron each agreed to contribute up to approximately $1.4 billion for IMFT and up to approximately $1.7 billion for IMFS in the three years following the initial capital contributions. Of these amounts, as of December 29, 2007, our remaining commitments were approximately $260 million for IMFT and approximately $1.5 billion for IMFS.
- We also have several agreements with Micron related to intellectual property rights, and R&D funding related to NAND flash manufacturing and IMFT. See "Note 19: Ventures" in Part II, Item 8 of this Form 10-K.

Off-Balance-Sheet Arrangements

As of December 29, 2007, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Business Outlook

Our future results of operations and the topics of other forward-looking statements contained in this Form 10-K, including this MD&A, involve a number of risks and uncertainties—in particular, our goals and strategies; new product introductions; plans to cultivate new businesses; pending divestitures; future economic conditions; revenue; pricing; gross margin and costs; capital spending; depreciation; R&D expenses; marketing, general and administrative expenses; potential impairment of investments; our effective tax rate; pending legal proceedings; net gains (losses) from equity investments; and interest and other, net. Our future results of operations may also be affected by the amount, type, and valuation of share-based awards granted as well as the amount of awards cancelled due to employee turnover and the timing of award exercises by employees. We are focusing on efforts to improve operational efficiency and reduce spending that 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.

Our expectations for 2008 are as follows:

- *Gross margin:* 57% plus or minus a few points. The 57% midpoint is higher than our 2007 gross margin of 51.9%, primarily due to expected lower unit costs and lower start-up costs, and to a lesser extent, the divestiture of lower margin businesses.
- *Capital spending:* approximately $5.2 billion, plus or minus $200 million, compared to $5.0 billion in 2007.
- *Depreciation:* approximately $4.4 billion, plus or minus $100 million, compared to $4.5 billion in 2007.
- *Total spending:* spending on R&D, plus marketing, general and administrative expenses in 2008 is expected to be approximately $11.4 billion. The expectation for total spending in 2008 is higher than our 2007 spending of $11.2 billion, as process development engineers transition from 45nm start-up activities to 32nm development, causing a movement of spending from cost of sales to R&D.
- *Research and development spending:* approximately $5.9 billion.
- *Tax rate:* approximately 31%. The estimated effective tax rate is based on tax law in effect at December 29, 2007 and current expected income.

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 7, 2008 until our quarterly earnings release is published, presently scheduled for April 15, 2008, 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 15, 2008, 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 our 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.

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 equity prices. We use derivative financial instruments primarily to mitigate these risks. All of the potential changes noted below are based on sensitivity analyses performed on our financial positions at December 29, 2007 and December 30, 2006. Actual results may differ materially.

Currency Exchange Rates

We generally hedge currency risks of non-U.S.-dollar-denominated investments in debt instruments 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 majority of our revenue, expense, and capital purchasing activities are transacted in U.S. dollars. However, certain operating expenditures and capital purchases are incurred in or exposed to other currencies, primarily the euro, the Israeli shekel, and the Chinese yuan. 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 anticipated 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 (see "Risk Factors" in Part II, Item 1A of this Form 10-K). We considered the historical trends in currency exchange rates and determined that it was reasonably possible that a weighted average adverse change of 15% in currency exchange rates could be experienced in the near term. Such an adverse change, after taking into account hedges and offsetting positions, would have resulted in an adverse impact on income before taxes of less than $35 million at the end of 2007 and 2006.

Interest Rates

We are exposed to interest rate risk related to our investment portfolio and debt issuances. The primary objective of our investments in debt instruments is to preserve principal while maximizing yields. To achieve this objective, the returns on all of our investments in debt instruments are generally based on three-month LIBOR, or, if the maturities are longer than three months, the returns are generally swapped into U.S. dollar three-month LIBOR-based returns. 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 17% of the rate at December 29, 2007 (15% of the rate at December 30, 2006), 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 $65 million as of December 29, 2007 and $50 million as of December 30, 2006. The decline reflects only the direct impact of the change in interest rates. Other economic variables, such as equity market fluctuations and changes in relative credit risk, could result in a significantly higher decline in our net investment portfolio.

Equity Prices

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

The marketable equity securities included in trading assets are held to generate returns that 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 December 29, 2007 and December 30, 2006, assuming a reasonably possible decline in market prices of approximately 10% in the near term.

As of December 29, 2007, the fair value of our marketable equity securities and equity derivative instruments, including hedging positions, was $1.0 billion ($427 million as of December 30, 2006). Our investments in VMware and Micron constituted 92% of our marketable equity securities as of December 29, 2007, and were carried at a fair market value of $794 million and $123 million, respectively. Our marketable equity method investment had a carrying value of $508 million and a fair value of $522 million as of December 29, 2007.

To assess the market price sensitivity of our marketable equity investments, we analyzed the historical movements over the past several years of high-technology stock indices that we considered appropriate. For our investments in companies that have been publicly traded for only a limited time, we analyzed the implied volatility of the related company based on freely traded options. Our marketable equity method investment is excluded from our analysis, as the carrying value does not fluctuate based on market price changes. Therefore, the potential fair value decline would not be indicative of the impact on our financial statements, unless an other-than-temporary impairment was deemed necessary. Based on our sensitivity analysis, we estimated that it was reasonably possible that the prices of the stocks of our marketable equity securities could experience a loss of 55% in the near term (30% as of December 30, 2006). Assuming a loss of 55% in market prices, and after reflecting the impact of hedges and offsetting positions, the aggregate value of our marketable equity investments could decrease by approximately $565 million, based on the value as of December 29, 2007 (a decrease in value of $134 million, based on the value as of December 30, 2006 using an assumed loss of 30%). This estimate is not necessarily indicative of future performance, and actual results may differ materially. The increase in exposure from December 30, 2006 to December 29, 2007 is due to our purchase of VMware during 2007, its stock price volatility, and the weight of our investment in VMware in relation to our total marketable equity securities.

Many of the same factors that could result in an adverse movement of equity market prices affect our non-marketable equity investments, although we cannot quantify the impact directly. 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 value in our investments through liquidity events such as initial public offerings, mergers, and 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. Our non-marketable equity investments, excluding investments accounted for under the equity method, had a carrying amount of $805 million as of December 29, 2007 ($733 million as of December 30, 2006). The carrying amount of these investments approximated fair value as of December 29, 2007 and December 30, 2006. As of December 29, 2007, the carrying amount of our non-marketable equity method investments was $2.6 billion ($2.0 billion as of December 30, 2006) and consisted primarily of our investment in IMFT of $2.2 billion ($1.3 billion as of December 30, 2006).