ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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INTEL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

Three Years Ended December 29, 2007 (In Millions, Except Per Share Amounts)	2007[1]	2006[1]	2005
Net revenue	**$ 38,334**	**$ 35,382**	**$ 38,826**
Cost of sales	18,430	17,164	15,777
Gross margin	**19,904**	**18,218**	**23,049**
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
Operating expenses	**11,688**	**12,566**	**10,959**
Operating income	**8,216**	**5,652**	**12,090**
Gains (losses) on equity investments, net	157	214	(45)
Interest and other, net	793	1,202	565
Income before taxes	**9,166**	**7,068**	**12,610**
Provision for taxes	2,190	2,024	3,946
Net income	**$ 6,976**	**$ 5,044**	**$ 8,664**
Basic earnings per common share	**$ 1.20**	**$ 0.87**	**$ 1.42**
Diluted earnings per common share	**$ 1.18**	**$ 0.86**	**$ 1.40**
Weighted average shares outstanding:			
Basic	**5,816**	**5,797**	**6,106**
Diluted	**5,936**	**5,880**	**6,178**

[1] *Cost of sales and operating expenses for the years ended December 29, 2007 and December 30, 2006 include share-based compensation. See "Note 2: Accounting Policies" and "Note 3: Employee Equity Incentive Plans."*

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED BALANCE SHEETS

December 29, 2007 and December 30, 2006 (In Millions, Except Par Value)	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 7,307	$ 6,598
Short-term investments	5,490	2,270
Trading assets	2,566	1,134
Accounts receivable, net of allowance for doubtful accounts of $27 ($32 in 2006)	2,576	2,709
Inventories	3,370	4,314
Deferred tax assets	1,186	997
Other current assets	1,390	258
Total current assets	**23,885**	**18,280**
Property, plant and equipment, net	**16,918**	**17,602**
Marketable equity securities	**987**	**398**
Other long-term investments	**4,398**	**4,023**
Goodwill	**3,916**	**3,861**
Other long-term assets	**5,547**	**4,204**
Total assets	**$ 55,651**	**$ 48,368**
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt	$ 142	$ 180
Accounts payable	2,361	2,256
Accrued compensation and benefits	2,417	1,644
Accrued advertising	749	846
Deferred income on shipments to distributors	625	599
Other accrued liabilities	1,938	1,192
Income taxes payable	339	1,797
Total current liabilities	**8,571**	**8,514**
Long-term income taxes payable	**785**	—
Deferred tax liabilities	**411**	**265**
Long-term debt	**1,980**	**1,848**
Other long-term liabilities	**1,142**	**989**
Commitments and contingencies (Notes 20 and 21)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 50 shares authorized; none issued	—	—
Common stock, $0.001 par value, 10,000 shares authorized; 5,818 issued and outstanding (5,766 in 2006) and capital in excess of par value	11,653	7,825
Accumulated other comprehensive income (loss)	261	(57)
Retained earnings	30,848	28,984
Total stockholders' equity	**42,762**	**36,752**
Total liabilities and stockholders' equity	**$ 55,651**	**$ 48,368**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Years Ended December 29, 2007 (In Millions)	2007	2006	2005
Cash and cash equivalents, beginning of year	**$ 6,598**	**$ 7,324**	**$ 8,407**
Cash flows provided by (used for) operating activities:			
Net income	6,976	5,044	8,664
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	4,546	4,654	4,345
Share-based compensation	952	1,375	—
Restructuring, asset impairment, and net loss on retirement of assets	564	635	74
Excess tax benefit from share-based payment arrangements	(118)	(123)	—
Amortization of intangibles and other acquisition-related costs	252	258	250
(Gains) losses on equity investments, net	(157)	(214)	45
(Gains) on divestitures	(21)	(612)	—
Deferred taxes	(443)	(325)	(413)
Tax benefit from employee equity incentive plans	—	—	351
Changes in assets and liabilities:			
Trading assets	(1,429)	324	1,606
Accounts receivable	316	1,229	(912)
Inventories	700	(1,116)	(500)
Accounts payable	102	7	303
Income taxes payable and receivable	(248)	(60)	797
Other assets and liabilities	633	(444)	241
Total adjustments	5,649	5,588	6,187
Net cash provided by operating activities	**12,625**	**10,632**	**14,851**
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(5,000)	(5,860)	(5,871)
Acquisitions, net of cash acquired	(76)	—	(191)
Purchases of available-for-sale investments	(11,728)	(5,272)	(8,475)
Maturities and sales of available-for-sale investments	8,011	7,147	8,433
Investments in non-marketable equity instruments	(1,459)	(1,722)	(193)
Net proceeds from divestitures	32	752	—
Other investing activities	294	(33)	(118)
Net cash used for investing activities	**(9,926)**	**(4,988)**	**(6,415)**
Cash flows provided by (used for) financing activities:			
Increase (decrease) in short-term debt, net	(39)	(114)	126
Proceeds from government grants	160	69	25
Excess tax benefit from share-based payment arrangements	118	123	—
Additions to long-term debt	125	—	1,742
Repayments and retirement of debt	—	—	(19)
Repayment of notes payable	—	(581)	—
Proceeds from sales of shares through employee equity incentive plans	3,052	1,046	1,202
Repurchase and retirement of common stock	(2,788)	(4,593)	(10,637)
Payment of dividends to stockholders	(2,618)	(2,320)	(1,958)
Net cash used for financing activities	**(1,990)**	**(6,370)**	**(9,519)**
Net increase (decrease) in cash and cash equivalents	**709**	**(726)**	**(1,083)**
Cash and cash equivalents, end of year	**$ 7,307**	**$ 6,598**	**$ 7,324**
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest, net of amounts capitalized of $57 in 2007 and $60 in 2006	$ 15	$ 25	$ 27
Income taxes, net of refunds	$ 2,762	$ 2,432	$ 3,218

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Three Years Ended December 29, 2007 (In Millions, Except Per Share Amounts)	Common Stock and Capital in Excess of Par Value		Acquisition-Related Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Number of Shares	Amount				
Balance at December 25, 2004	**6,253**	**$ 6,143**	**$ (4)**	**$ 152**	**$ 32,288**	**$ 38,579**
Components of comprehensive income, net of tax:						
Net income	—	—	—	—	8,664	8,664
Other comprehensive income	—	—	—	(25)	—	(25)
Total comprehensive income						8,639
Proceeds from sales of shares through employee equity incentive plans, tax benefit of $351, and other	84	1,553	—	—	—	1,553
Assumption of acquisition-related stock options and amortization of acquisition-related unearned stock compensation, net of adjustments	—	2	4	—	—	6
Repurchase and retirement of common stock	(418)	(1,453)	—	—	(9,184)	(10,637)
Cash dividends declared ($0.32 per share)	—	—	—	—	(1,958)	(1,958)
Balance at December 31, 2005	**5,919**	**6,245**	**—**	**127**	**29,810**	**36,182**
Components of comprehensive income, net of tax:						
Net income	—	—	—	—	5,044	5,044
Other comprehensive income	—	—	—	26	—	26
Total comprehensive income						5,070
Adjustment for initially applying SFAS No. 158, net of tax	—	—	—	(210)	—	(210)
Proceeds from sales of shares through employee equity incentive plans, net excess tax benefit, and other	73	1,248	—	—	—	1,248
Share-based compensation	—	1,375	—	—	—	1,375
Repurchase and retirement of common stock	(226)	(1,043)	—	—	(3,550)	(4,593)
Cash dividends declared ($0.40 per share)	—	—	—	—	(2,320)	(2,320)
Balance at December 30, 2006	**5,766**	**7,825**	**—**	**(57)**	**28,984**	**36,752**
Cumulative-effect adjustments, net of tax[1]:						
Adoption of EITF 06-02	—	—	—	—	(181)	(181)
Adoption of FIN 48	—	—	—	—	181	181
Components of comprehensive income, net of tax:						
Net income	—	—	—	—	6,976	6,976
Other comprehensive income	—	—	—	318	—	318
Total comprehensive income						7,294
Proceeds from sales of shares through employee equity incentive plans, net excess tax benefit, and other	165	3,170	—	—	—	3,170
Share-based compensation	—	952	—	—	—	952
Repurchase and retirement of common stock	(113)	(294)	—	—	(2,494)	(2,788)
Cash dividends declared ($0.45 per share)	—	—	—	—	(2,618)	(2,618)
Balance at December 29, 2007	**5,818**	**$ 11,653**	**$ —**	**$ 261**	**$ 30,848**	**$ 42,762**

[1] *See "Accounting Changes" in "Note 2: Accounting Policies" for further discussion of the cumulative-effect adjustments recorded at the beginning of fiscal year 2007.*

See accompanying notes.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

We have a 52- or 53-week fiscal year that ends on the last Saturday in December. Fiscal year 2007, a 52-week year, ended on December 29, 2007. Fiscal year 2006, a 52-week year, ended on December 30, 2006. Fiscal year 2005, a 53-week year, ended on December 31, 2005. The next 53-week year will end on December 31, 2011.

Our consolidated financial statements include the accounts of Intel and our wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated. We use the equity method to account for equity investments in instances in which we own common stock or similar interests (as described by the Emerging Issues Task Force (EITF) Issue No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock"), and have the ability to exercise significant influence, but not control, over the investee.

The U.S. dollar is the functional currency for Intel and our subsidiaries; therefore, there is no translation adjustment recorded through accumulated other comprehensive income (loss). Monetary accounts denominated in non-U.S. currencies, such as cash or payables to vendors, have been remeasured to the U.S. dollar.

Note 2: Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and judgments that affect the amounts reported in our consolidated financial statements and the accompanying notes. The accounting estimates that require our most significant, difficult, and subjective judgments include:

- the valuation of non-marketable equity investments;
- the assessment of recoverability of long-lived assets;
- the recognition and measurement of current and deferred income tax assets and liabilities (including the measurement of uncertain tax positions);
- the valuation of inventory; and
- the valuation and recognition of share-based compensation.

The actual results that we experience may differ materially from our estimates.

Cash and Cash Equivalents

We consider all highly liquid debt instruments with original maturities from the date of purchase of approximately three months or less as cash and cash equivalents.

Trading Assets

Investments that we designate as trading assets are reported at fair value, with gains or losses resulting from changes in fair value recognized in earnings. Our trading asset investments include:

- *Marketable debt instruments* when the interest rate or foreign exchange rate risk is hedged at inception by a related derivative instrument. We record the gains or losses of these investments arising from changes in fair value due to interest rate and currency market fluctuations and credit market volatility, offset by losses or gains on the related derivative instruments, in interest and other, net. We designate floating-rate securitized financial instruments, such as asset-backed securities, purchased after December 30, 2006 as trading assets.
- *Equity securities offsetting deferred compensation* when the investments seek to offset changes in liabilities related to equity and other market risks of certain deferred compensation arrangements. We offset the gains or losses from changes in fair value of these equity securities against losses or gains on the related liabilities and include them in interest and other, net.
- *Marketable equity securities* when we deem the investments not to be strategic in nature at the time of original classification, and have the ability and intent to mitigate equity market risk through the sale or the use of derivative instruments. For these marketable equity securities, we include gains or losses from changes in fair value, primarily offset by losses or gains on related derivative instruments, in gains (losses) on equity investments, net.

Debt Instrument Investments

We classify debt instruments with original maturities at the date of purchase greater than approximately three months and remaining maturities less than one year as short-term investments. We classify debt instruments with remaining maturities greater than one year as other long-term investments. We account for cost basis loan participation notes at amortized cost and classify them as short-term investments and other long-term investments based on stated maturities.

Available-for-Sale Investments

Investments that we designate as available-for-sale are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income (loss). We base the cost of the investment sold on the specific identification method. Our available-for-sale investments include:

- *Marketable debt instruments* when the interest rate and foreign currency risks are not generally hedged at inception of the investment or when our designation for trading assets is not met. We hold these debt instruments to generate a return commensurate with three-month LIBOR. We record the interest income and realized gains and losses on the sale of these instruments in interest and other, net.
- *Marketable equity securities* when the investments are considered strategic in nature at the time of original classification. We acquire these equity investments for the promotion of business and strategic objectives. To the extent that these investments continue to have strategic value, we typically do not attempt to reduce or eliminate the inherent equity market risks through hedging activities. We record the realized gains or losses on the sale or exchange of marketable equity securities in gains (losses) on equity investments, net.

Non-Marketable and Other Equity Investments

We account for non-marketable and other equity investments under either the cost or equity method and include them in other long-term assets. Our non-marketable and other equity investments include:

- *Equity method investments* when we have the ability to exercise significant influence, but not control, over the investee. We record equity method adjustments in gains (losses) on equity investments, net and may do so with up to a one-quarter lag. Equity method adjustments include: our proportionate share of investee income or loss, gains or losses resulting from investee capital transactions, amortization of certain differences between our carrying value and our equity in the net assets of the investee at the date of investment, and other adjustments required by the equity method. Equity method investments include marketable and non-marketable investments.
- *Non-marketable cost method investments* when we do not have the ability to exercise significant influence over the investee.

Other-Than-Temporary Impairment

All of our available-for-sale investments and non-marketable and other equity investments are subject to a periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary, for the following investments:

- *Marketable equity securities* when the resulting fair value is significantly below cost basis and/or the significant decline has lasted for an extended period of time. The evaluation that we use to determine whether a marketable equity security is impaired is based on the specific facts and circumstances present at the time of assessment, which include the consideration of general market conditions, the duration and extent to which the fair value is below cost, and our intent and ability to hold the investment for a sufficient period of time to allow for recovery in value. We also consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and changes in the investee's credit rating.
- *Non-marketable equity investments* when events or circumstances are identified that would significantly harm the fair value of the investment. The indicators that we use to identify those events and circumstances include:
  - the investee's revenue and earning 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 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.
- *Marketable debt instruments* when the fair value is significantly below amortized cost and/or the significant decline has lasted for an extended period of time and we do not have the intent and ability to hold the investment for a sufficient period of time to allow for recovery. The evaluation that we use to determine whether a marketable debt instrument is impaired is based on the specific facts and circumstances present at the time of assessment, which include the consideration of the financial condition and near-term prospects of the issuer, and the duration and extent to which the fair value is below cost.

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 the entire investment down, since we consider the estimated fair value to be nominal. We record impairment charges in gains (losses) on equity investments, net for marketable and non-marketable equity investments or in interest and other, net for debt instrument investments.

Fair Values of Financial Instruments

The carrying value of cash equivalents approximates fair value due to the short period of time to maturity. Fair values of short-term investments, trading assets, long-term investments, marketable equity investments, certain non-marketable investments, short-term debt, long-term debt, swaps, currency forward contracts, currency options, equity options, and warrants are based on quoted market prices or pricing models using current market data when available. Debt instruments are generally valued using a quoted market price of identical or similar instruments or discounted cash flows in a yield-curve model based on LIBOR. Equity options and warrants are priced using option pricing models. Our financial instruments are recorded at fair value, except for cost basis loan participation notes and debt. Estimated fair values are management's estimates; however, when there is no readily available market data, the estimated fair values may not necessarily represent the amounts that could be realized in a current transaction, and the fair values could change significantly. For a listing of fair values and carrying values of our trading assets and available-for-sale investments for 2007 and 2006, see "Note 7: Investments."

For our marketable equity method investment, the fair value exceeded the aggregate carrying value by $14 million as of December 29, 2007. We did not have any marketable equity method investments in 2006. For non-marketable equity investments, the fair value exceeded the carrying value by approximately $600 million as of December 29, 2007. We believe that the fair value of non-marketable equity investments approximated the carrying value at December 30, 2006. For our cost basis loan participation notes, the fair value exceeded the carrying value by approximately $50 million as of December 29, 2007 (approximately $55 million as of December 30, 2006). These fair value estimates take into account the movements of the equity and venture capital markets as well as changes in the interest rate environment, and other economic variables.

For our long-term debt, the fair value exceeded the carrying value by approximately $65 million as of December 29, 2007. As of December 30, 2006, the fair value of our long-term debt was below its carrying value by approximately $100 million. These fair value estimates take into consideration credit rating changes, equity price movements, interest rate changes, and other economic variables.

Derivative Financial Instruments

Our primary objective for holding derivative financial instruments is to manage currency, interest rate, and certain equity market risks. Our derivative financial instruments are recorded at fair value and are included in other current assets, other long-term assets, other accrued liabilities, or other long-term liabilities. Derivative instruments recorded as assets totaled $118 million at December 29, 2007 ($117 million at December 30, 2006). Derivative instruments recorded as liabilities totaled $130 million at December 29, 2007 ($62 million at December 30, 2006).

Our accounting policies for derivative financial instruments are based on whether they meet the criteria for designation as cash flow or fair value hedges. A designated hedge of the exposure to variability in the future cash flows of an asset or a liability, or of a forecasted transaction, is referred to as a cash flow hedge. A designated hedge of the exposure to changes in fair value of an asset or a liability, or of an unrecognized firm commitment, is referred to as a fair value hedge. The criteria for designating a derivative as a hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the probability that the underlying transaction will occur. We recognize gains and losses from changes in fair values of derivatives that are not designated as hedges for accounting purposes within the same income statement line item as the underlying item, and these gains and losses generally offset changes in fair values of related assets or liabilities. Derivatives that we designate as hedges are classified in the consolidated statements of cash flows in the same section as the underlying item, primarily within cash flows from operating activities. Derivatives not designated as hedges are classified in cash flows from operating activities.

As part of our strategic investment program, we also acquire equity derivative instruments, such as warrants and equity conversion rights associated with debt instruments, which are not designated as hedging instruments. We recognize the gains or losses from changes in fair values of these equity derivative instruments in gains (losses) on equity investments, net.

Through the use of derivative financial instruments, we manage the following risks:

Currency Risk

We transact business in various currencies other than the U.S. dollar and have established balance sheet and forecasted transaction risk management programs to protect against fluctuations in fair value and the volatility of future cash flows caused by changes in exchange rates. The forecasted transaction risk management program includes anticipated transactions such as operating expenditures and capital purchases. These programs reduce, but do not always entirely eliminate, the impact of currency exchange movements.

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. The maturity of these instruments generally occurs 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) in stockholders' equity and reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of income as the impact of the hedged transaction.
- *Currency derivatives with fair value hedge accounting designation* that utilize currency forward contracts and currency options to hedge the fair value exposure of recognized foreign-currency-denominated assets or liabilities, or previously unrecognized firm commitments. For fair value hedges, we recognize gains or losses in earnings to offset fair value changes in the hedged transaction. As of December 29, 2007 and December 30, 2006, we did not have any derivatives designated as foreign currency fair value hedges.
- *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 and non-U.S.-dollar-denominated debt instruments classified as trading assets. The maturity of these instruments generally occurs within 12 months, except for derivatives associated with certain long-term equity-related investments that generally mature within five years. Changes in the U.S.-dollar-equivalent cash flows of the underlying assets and liabilities are approximately offset by the changes in fair values of the related derivatives. We record net gains or losses in the income statement line item most closely associated with the economic underlying, 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. 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 some of our investments. 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 reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction.
- *Interest rate derivatives with fair value hedge accounting designation* that utilize interest rate swap agreements to hedge the fair values of debt instruments. We recognize the gains or losses from the changes in fair value of these instruments, as well as the offsetting change in the fair value of the hedged long-term debt, in interest expense. At December 29, 2007 and December 30, 2006, we did not have any interest rate derivatives designated as fair value hedges.
- *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. We reset the floating interest rates on the swaps on a monthly, quarterly, or semiannual basis. Changes in fair value of the debt instruments classified as trading assets 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

We may elect to mitigate equity risk using the following equity market risk management programs:

- *Equity derivatives with hedge accounting designation* that utilize equity options, swaps, or forward contracts to hedge the equity market risk of marketable equity securities, when these investments are not considered to have strategic value. These derivatives are generally designated as fair value hedges. We recognize the gains or losses from the change in fair value of these equity derivatives, as well as the offsetting change in the fair value of the underlying hedged equity securities, in gains (losses) on equity investments, net. At December 29, 2007 and December 30, 2006, we did not have any equity derivatives designated as fair value hedges.
- *Equity derivatives without hedge accounting designation* that utilize equity derivatives, such as warrants, equity options, or other equity derivatives. We recognize changes in the fair value of such derivatives in gains (losses) on equity investments, net.

Measurement of Effectiveness

- *Effectiveness for forwards* is generally measured by comparing the cumulative change in the fair value of the hedge contract with the cumulative change in the present value of the forecasted cash flows of the hedged item. For currency forward contracts used in cash flow hedging strategies related to capital purchases, forward points are excluded, and effectiveness is measured using spot rates to value both the hedge contract and the hedged item. For currency forward contracts used in cash flow hedging strategies related to operating expenditures, forward points are included and effectiveness is measured using forward rates to value both the hedge contract and the hedged item.
- *Effectiveness for currency options and equity options with hedge accounting designation* is generally measured by comparing the cumulative change in the fair value of the hedge contract with the cumulative change in the fair value of an option instrument representing the hedged risks in the hedged item for cash flow hedges. For fair value hedges, time value is excluded and effectiveness is measured based on spot rates to value both the hedge contract and the hedged item.
- *Effectiveness for interest rate swaps* is generally measured by comparing the change in fair value of the hedged item with the change in fair value of the interest rate swap.

If a cash flow hedge were discontinued because it was no longer probable that the original hedged transaction would occur as anticipated, the unrealized gain or loss on the related derivative would be reclassified into earnings. Subsequent gains or losses on the related derivative instrument would be recognized in income in each period until the instrument matures, is terminated, is re-designated as a qualified hedge, or is sold. Any ineffective portion of both cash flow and fair value hedges, as well as amounts excluded from the assessment of effectiveness, are recognized in earnings in interest and other, net.

Securities Lending

We may enter into securities lending agreements with financial institutions, generally to facilitate hedging and certain investment transactions. Selected securities may be loaned, secured by collateral in the form of cash or securities. The loaned securities continue to be carried as investment assets on our consolidated balance sheets. Cash collateral is recorded as an asset with a corresponding liability. For lending agreements collateralized by securities, we do not record the collateral as an asset or a liability, unless the collateral is repledged.

Inventories

We compute inventory cost on a currently adjusted standard basis (which approximates actual cost on an average or first-in, first-out basis). 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. Inventory in excess of saleable amounts is not valued, and the remaining inventory is valued at the lower of cost or market. Inventories at fiscal year-ends were as follows:

(In Millions)	2007	2006
Raw materials	$ 507	$ 608
Work in process	1,460	2,044
Finished goods	1,403	1,662
Total inventories	**$ 3,370**	**$ 4,314**

Property, Plant and Equipment

Property, plant and equipment, net at fiscal year-ends was as follows:

(In Millions)	2007	2006
Land and buildings	$ 15,267	$ 14,544
Machinery and equipment	27,754	29,829
Construction in progress	3,031	2,711
	46,052	**47,084**
Less: accumulated depreciation	(29,134)	(29,482)
Total property, plant and equipment, net	**$ 16,918**	**$ 17,602**

We state property, plant and equipment at cost, less accumulated depreciation. We compute depreciation for financial reporting purposes principally using the straight-line method over the following estimated useful lives: machinery and equipment, 2 to 4 years; buildings, 4 to 40 years. Reviews are regularly performed if facts and circumstances indicate that the carrying amount of assets may not be recoverable or that the useful life is shorter than we had originally estimated. We assess the recoverability of our assets held for use by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. If we determine that the useful lives are shorter than we had originally estimated, we depreciate the net book value of the assets over the newly determined remaining useful lives. See "Note 16: Restructuring and Asset Impairment Charges" for further discussion of restructuring-related asset impairment charges that we recorded during 2007 and 2006.

We identify property, plant and equipment as held for sale when it meets the criteria of Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." We reclassify held for sale assets to other current assets and cease recording depreciation.

We capitalize interest on borrowings related to eligible capital expenditures. We add capitalized interest to the cost of qualified assets and amortize it over the estimated useful lives of the assets. Capital-related government grants earned are recorded as a reduction to property, plant and equipment.

Goodwill

We record goodwill when the purchase price of an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. We perform an annual impairment review for each reporting unit using a fair value approach. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. In determining the carrying value of the reporting unit, we have to make an allocation of our manufacturing and assembly and test assets because of the interchangeable nature of our manufacturing and assembly and test capacity. We base this allocation on each reporting unit's relative percentage utilization of the manufacturing and assembly and test assets. In the event that an individual business within a reporting unit is divested, we allocate goodwill to that business based on its fair value relative to its reporting unit. For further discussion of goodwill, see "Note 15: Goodwill."

Identified Intangible Assets

Intellectual property assets primarily represent rights acquired under technology licenses and are generally amortized on a straight-line basis over the periods of benefit, ranging from 2 to 17 years. We amortize acquisition-related developed technology on a straight-line basis over approximately 4 years. Other intangible assets include acquisition-related customer lists and workforce-in-place, which we amortize on a straight-line basis over periods ranging from 2 to 4 years. We classify all identified intangible assets within other long-term assets. In the quarter following the period in which identified intangible assets become fully amortized, the fully amortized balances are removed from the gross asset and accumulated amortization amounts. For further discussion of identified intangible assets, see "Note 14: Identified Intangible Assets."

We perform a quarterly review of identified intangible assets to determine if facts and circumstances indicate that the useful life is shorter than we had originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances do exist, we assess the recoverability of identified intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets.

Product Warranty

We generally sell products with a limited warranty on product quality and a limited indemnification for customers against intellectual property infringement claims related to our products. We accrue for known warranty and indemnification issues if a loss is probable and can be reasonably estimated, and accrue for estimated incurred but unidentified issues based on historical activity. The accrual and the related expense for known issues were not significant during the periods presented. Due to product testing and the short time typically between product shipment and the detection and correction of product failures, and considering the historical rate of payments on indemnification claims, the accrual and related expense for estimated incurred but unidentified issues were not significant during the periods presented.

Revenue Recognition

We recognize net revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title, and acceptance, if applicable, as well as fixed pricing and probable collectibility. We record pricing allowances, including discounts based on contractual arrangements with customers, when revenue is recognized as a reduction to both accounts receivable and net revenue. Because of frequent sales price reductions and rapid technology obsolescence in the industry, we defer sales made to distributors under agreements allowing price protection and/or right of return until the distributors sell the merchandise. We include shipping charges billed to customers in net revenue, and include the related shipping costs in cost of sales.

Advertising

Cooperative advertising programs reimburse customers for marketing activities for certain of our products, subject to defined criteria. We accrue cooperative advertising obligations and record the costs at the same time the related revenue is recognized. We record cooperative advertising costs as marketing, general and administrative expenses to the extent that an advertising benefit separate from the revenue transaction can be identified and the fair value of that advertising benefit received is determinable. We record any excess in cash paid over the fair value of the advertising benefit received as a reduction in revenue. Advertising costs recorded within marketing, general and administrative expenses were $1.9 billion in 2007 ($2.3 billion in 2006 and $2.6 billion in 2005).

Employee Equity Incentive Plans

We have employee equity incentive plans, which are described more fully in “Note 3: Employee Equity Incentive Plans.” Effective January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), “Share-Based Payment” (SFAS No. 123(R)). SFAS No. 123(R) requires employee equity awards to be accounted for under the fair value method. Accordingly, we measure share-based compensation at the grant date, based on the fair value of the award. Prior to January 1, 2006, we accounted for awards granted under our equity incentive plans using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees” (APB No. 25), and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, “Accounting for Stock-Based Compensation” (SFAS No. 123), as amended. The exercise price of options is equal to the value of Intel common stock on the date of grant. Additionally, the stock purchase plan was deemed non-compensatory under APB No. 25. Accordingly, prior to 2006 we did not recognize any share-based compensation, other than insignificant amounts of acquisition-related compensation, on the consolidated financial statements.

Under the modified prospective method of adoption for SFAS No. 123(R), the compensation cost that we recognized beginning in 2006 includes (a) compensation cost for all equity incentive awards granted prior to but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all equity incentive awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). We use the straight-line attribution method to recognize share-based compensation over the service period of the award. Upon exercise, cancellation, forfeiture, or expiration of stock options, or upon vesting or forfeiture of restricted stock units, we eliminate deferred tax assets for options and restricted stock units with multiple vesting dates for each vesting period on a first-in, first-out basis as if each vesting period were a separate award. To calculate the excess tax benefits available as of the date of adoption for use in offsetting future tax shortfalls, we followed the alternative transition method discussed in Financial Accounting Standards Board (FASB) Staff Position No. 123(R)-3.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and enhances fair value measurement disclosure. In February 2008, the FASB issued FASB Staff Position (FSP) 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" (FSP 157-1) and FSP 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal 2009. The measurement and disclosure requirements related to financial assets and financial liabilities are effective for us beginning in the first quarter of fiscal 2008. The adoption of SFAS No. 157 for financial assets and financial liabilities will not have a significant impact on our consolidated financial statements. However, the resulting fair values calculated under SFAS No. 157 after adoption may be different from the fair values that would have been calculated under previous guidance. We are currently evaluating the impact that SFAS No. 157 will have on our consolidated financial statements when it is applied to non-financial assets and non-financial liabilities beginning in the first quarter of 2009.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value. The standard requires that unrealized gains and losses are reported in earnings for items measured using the fair value option. SFAS No. 159 is effective for us beginning in the first quarter of fiscal year 2008. The adoption of SFAS No. 159 is not expected to have a significant impact on our consolidated financial statements.

In June 2007, the FASB ratified EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities" (EITF 07-3). EITF 07-3 requires non-refundable advance payments for goods and services to be used in future research and development (R&D) activities to be recorded as assets and the payments to be expensed when the R&D activities are performed. EITF 07-3 applies prospectively for new contractual arrangements entered into beginning in the first quarter of fiscal year 2008. Prior to adoption, we recognized these non-refundable advance payments as an expense upon payment. The adoption of EITF 07-3 is not expected to have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141(R)). Under SFAS No. 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development (IPR&D) is capitalized as an intangible asset and amortized over its estimated useful life. The adoption of SFAS No. 141(R) will change our accounting treatment for business combinations on a prospective basis beginning in the first quarter of fiscal year 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" (SFAS No. 160). SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests and classified as a component of equity. SFAS No. 160 is effective for us on a prospective basis for business combinations with an acquisition date beginning in the first quarter of fiscal year 2009. As of December 29, 2007, we did not have any minority interests. The adoption of SFAS No. 160 will not impact our consolidated financial statements.

In December 2007, the U.S. Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 110 (SAB 110) to amend the SEC's views discussed in Staff Accounting Bulletin 107 (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.

Accounting Changes

In fiscal year 2007, we adopted EITF Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43" (EITF 06-2). EITF 06-2 requires companies to accrue the cost of these compensated absences over the service period. We adopted EITF 06-2 through a cumulative-effect adjustment, resulting in an additional liability of $280 million, additional deferred tax assets of $99 million, and a reduction to retained earnings of $181 million at the beginning of 2007.

We also adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48), and related guidance in fiscal year 2007. See "Note 17: Taxes" for further discussion.

Note 3: Employee Equity Incentive Plans

Our equity incentive plans are broad-based, long-term retention programs intended to attract and retain talented employees and align stockholder and employee interests.

In May 2007, stockholders approved an extension of the 2006 Equity Incentive Plan (the 2006 Plan). Stockholders approved 119 million additional shares for issuance, increasing the total shares of common stock available for issuance as equity awards to employees and non-employee directors to 294 million shares. Of this amount, we increased the maximum number of shares to be awarded as non-vested shares (restricted stock) or non-vested share units (restricted stock units) to 168 million shares. The approval also extended the expiration date of the 2006 Plan to June 2010. The 2006 Plan allows for time-based, performance-based, and market-based vesting for equity incentive awards. As of December 29, 2007, we had not issued any performance-based or market-based equity incentive awards. As of December 29, 2007, 226 million shares remained available for future grant under the 2006 Plan. We may assume the equity incentive plans and the outstanding equity awards of certain acquired companies. Once they are assumed, we do not grant additional shares under these plans.

We began issuing restricted stock units in 2006. We issue shares on the date that the restricted stock units vest. The majority of shares issued are net of the statutory withholding requirements that we pay on behalf of our employees. As a result, the actual number of shares issued will be less than the number of restricted stock units granted. Prior to vesting, restricted stock units do not have dividend equivalent rights, do not have voting rights, and the shares underlying the restricted stock units are not considered issued and outstanding.

Equity awards granted to employees in 2007 under our equity incentive plans generally vest over 4 years from the date of grant, and options expire 7 years from the date of grant. Equity awards granted to key officers, senior-level employees, and key employees in 2007 may have delayed vesting beginning 2 to 5 years from the date of grant, and options expire 7 to 10 years from the date of grant.

The 2006 Stock Purchase Plan allows eligible employees to purchase shares of our common stock at 85% of the value of our common stock on specific dates. Under the 2006 Stock Purchase Plan, we made 240 million shares of common stock available for issuance through August 2011. As of December 29, 2007, 214 million shares were available for issuance under the 2006 Stock Purchase Plan.

Share-Based Compensation

Effective January 1, 2006, we adopted the provisions of SFAS No. 123(R), as discussed in “Note 2: Accounting Policies.” Share-based compensation recognized in 2007 was $952 million ($1,375 million in 2006 and zero in 2005).

In accordance with SFAS No. 123(R), we adjust share-based compensation on a quarterly basis for changes to our estimate of expected equity award forfeitures based on our review of recent forfeiture activity and expected future employee turnover. We recognize the effect of adjusting the forfeiture rate for all expense amortization after January 1, 2006 in the period that we change the forfeiture estimate. The effect of forfeiture adjustments in 2007 and 2006 was insignificant.

The total share-based compensation cost capitalized as part of inventory as of December 29, 2007 was $41 million ($72 million as of December 30, 2006). The amount that we would have capitalized to inventory as of December 31, 2005, if we had applied the provisions of SFAS No. 123(R) retrospectively, was $66 million. Under the provisions of SFAS No. 123(R), we recorded $66 million as a credit to common stock and capital in excess of par value. During 2007, the tax benefit that we realized for the tax deduction from option exercises and other awards totaled $265 million ($139 million in 2006).

Pro forma information required under SFAS No. 123(R) for 2005, as if we had applied the fair value recognition provisions of SFAS No. 123 to options granted under our equity incentive plans and rights to acquire stock granted under our stock purchase plan, is as follows:

(In Millions, Except Per Share Amounts)	2005
Net income, as reported	$ 8,664
Less: total share-based compensation determined under the fair value method for all awards, net of tax	1,262
Pro forma net income	$ 7,402
Reported basic earnings per common share	$ 1.42
Pro forma basic earnings per common share	$ 1.21
Reported diluted earnings per common share	$ 1.40
Pro forma diluted earnings per common share	$ 1.20

For share-based compensation recognized in 2007 and 2006 as a result of the adoption of SFAS No. 123(R), as well as pro forma disclosures according to the original provisions of SFAS No. 123 for periods prior to the adoption of SFAS No. 123(R), we use the Black-Scholes option pricing model to estimate the fair value of options granted under our equity incentive plans and rights to acquire stock granted under our stock purchase plan. We based the weighted average estimated values of employee stock option grants and rights granted under the stock purchase plan, as well as the weighted average assumptions used in calculating these values, on estimates at the date of grant, as follows:

	Stock Options			Stock Purchase Plan		
	2007	2006	2005[1]	2007	2006	2005[1]
Estimated values	$ 5.79	$ 5.21	$ 6.02	$ 5.18	$ 4.56	$ 5.78
Expected life (in years)	5.0	4.9	4.7	.5	.5	.5
Risk-free interest rate	4.5%	4.9%	3.9%	5.2%	5.0%	3.2%
Volatility	26%	27%	26%	28%	29%	23%
Dividend yield	2.0%	2.0%	1.4%	2.0%	2.1%	1.3%

[1] *Estimated values and assumptions used in calculating fair value prior to the adoption of SFAS No. 123(R).*

We base the expected volatility on implied volatility, because we have determined that implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. We use the simplified method of calculating expected life described in SAB 107, due to significant differences in the vesting terms and contractual life of current option grants compared to our historical grants.

We estimate the fair value of restricted stock unit awards using the value of our common stock on the date of grant, reduced by the present value of dividends expected to be paid on our common stock prior to vesting. We based the weighted average estimated values of restricted stock unit grants, as well as the weighted average assumptions that we used in calculating the fair value, on estimates at the date of grant, as follows:

	2007	2006
Estimated values	$ 21.13	$ 18.70
Risk-free interest rate	4.7%	4.9%
Dividend yield	2.0%	2.0%

Stock Option Awards

Options outstanding that have vested and are expected to vest as of December 29, 2007 are as follows:

	Number of Shares (In Millions)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value[1] (In Millions)
Vested	528.2	$ 29.04	3.8	$ 1,536
Expected to vest[2]	118.5	$ 22.89	5.4	493
Total	**646.7**	**$ 27.91**	**4.1**	**$ 2,029**

[1] *Amounts represent the difference between the exercise price and $26.76, the closing price of Intel stock on December 28, 2007, as reported on The NASDAQ Global Select Market*, for all in-the-money options outstanding.*

[2] *Options outstanding that are expected to vest are net of estimated future option forfeitures in accordance with the provisions of SFAS No. 123(R).*

Options with a fair value of $1.4 billion completed vesting during 2007. As of December 29, 2007, there was $524 million in unrecognized compensation costs related to stock options granted under our equity incentive plans. We expect to recognize those costs over a weighted average period of 1.1 years.

Additional information with respect to stock option activity is as follows:

(In Millions, Except Per Share Amounts)	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value[1]
December 25, 2004	**883.9**	**$ 26.26**	
Grants	118.9	$ 23.36	
Exercises	(64.5)	$ 12.65	
Cancellations and forfeitures	(38.4)	$ 29.80	
December 31, 2005	**899.9**	**$ 26.71**	
Grants	52.3	$ 20.04	
Exercises	(47.3)	$ 12.83	$ 364
Cancellations and forfeitures	(65.4)	$ 28.07	
December 30, 2006	**839.5**	**$ 26.98**	
Grants	24.6	$ 22.63	
Exercises	(132.8)	$ 19.78	$ 552
Cancellations and forfeitures	(65.4)	$ 31.97	
December 29, 2007	**665.9**	**$ 27.76**	
Options exercisable at:			
December 31, 2005	469.2	$ 29.16	
December 30, 2006	567.6	$ 28.66	
December 29, 2007	528.2	$ 29.04	

[1] *Amounts represent the difference between the exercise price and the value of Intel stock at the time of exercise.*

The following table summarizes information about options outstanding at December 29, 2007:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Shares (In Millions)	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Number of Shares (In Millions)	Weighted Average Exercise Price
$0.05–$15.00	0.9	3.3	$ 6.64	0.9	$ 6.66
$15.01–$20.00	108.3	4.4	$ 18.59	79.8	$ 18.52
$20.01–$25.00	280.4	4.3	$ 22.54	202.2	$ 22.64
$25.01–$30.00	133.7	5.0	$ 27.23	109.8	$ 27.30
$30.01–$35.00	54.5	2.7	$ 31.35	47.4	$ 31.31
$35.01–$40.00	22.2	2.5	$ 38.43	22.2	$ 38.43
$40.01–$87.90	65.9	2.3	$ 59.80	65.9	$ 59.80
Total	**665.9**	**4.1**	**$ 27.76**	**528.2**	**$ 29.04**

These options will expire if they are not exercised by specific dates through January 2017. Option exercise prices for options exercised during the three-year period ended December 29, 2007 ranged from $0.05 to $28.05.

Restricted Stock Unit Awards

Information with respect to outstanding restricted stock unit activity is as follows:

(In Millions, Except Per Share Amounts)	Number of Shares	Weighted Average Grant-Date Fair Value	Aggregate Fair Value[1]
Outstanding at December 31, 2005	**—**	**$ —**	
Granted	30.0	$ 18.70	
Vested	—	$ —	$ —
Forfeited	(2.6)	$ 18.58	
Outstanding at December 30, 2006	**27.4**	**$ 18.71**	
Granted	32.8	$ 21.13	
Vested[2]	(5.9)	$ 18.60	$ 131[3]
Forfeited	(3.2)	$ 19.38	
Outstanding at December 29, 2007	**51.1**	**$ 20.24**	

[1] *Represents the value of Intel stock on the date that the restricted stock units vest.*

[2] *The number of restricted stock units vested includes shares that we withheld on behalf of employees to satisfy the statutory tax withholding requirements.*

[3] *On the grant date, the fair value for these vested awards was $111 million.*

As of December 29, 2007, there was $707 million in unrecognized compensation costs related to restricted stock units granted under our equity incentive plans. We expect to recognize those costs over a weighted average period of 1.6 years.

Stock Purchase Plan

Approximately 75% of our employees were participating in our stock purchase plan as of December 29, 2007. Employees purchased 26.1 million shares in 2007 for $428 million under the 2006 Stock Purchase Plan. Employees purchased 26.0 million shares in 2006 (19.6 million in 2005) for $436 million ($387 million in 2005) under the now expired 1976 Stock Participation Plan. As of December 29, 2007, there was $16 million in unrecognized compensation costs related to rights to acquire stock under our stock purchase plan. We expect to recognize those costs over a weighted average period of one month.

Note 4: Earnings Per Share

We computed our basic and diluted earnings per common share as follows:

(In Millions, Except Per Share Amounts)	2007	2006	2005
Net income	**$ 6,976**	**$ 5,044**	**$ 8,664**
Weighted average common shares outstanding—basic	**5,816**	**5,797**	**6,106**
Dilutive effect of employee equity incentive plans	69	32	70
Dilutive effect of convertible debt	51	51	2
Weighted average common shares outstanding—diluted	**5,936**	**5,880**	**6,178**
Basic earnings per common share	**$ 1.20**	**$ 0.87**	**$ 1.42**
Diluted earnings per common share	**$ 1.18**	**$ 0.86**	**$ 1.40**

We computed our basic earnings per common share using net income and the weighted average number of common shares outstanding during the period. We computed diluted earnings per common share using net income and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of outstanding stock options, assumed vesting of outstanding restricted stock units, assumed issuance of stock under the stock purchase plan using the treasury stock method, and the assumed conversion of debt using the if-converted method.

For 2007, we excluded 417 million outstanding weighted average stock options (693 million in 2006 and 372 million in 2005) from the calculation of diluted earnings per common share because the exercise prices of these stock options were greater than or equal to the average market value of the common shares. These options could be included in the calculation in the future if the average market value of the common shares increases and is greater than the exercise price of these options.

Note 5: Common Stock Repurchases

Common Stock Repurchase Program

We have an ongoing authorization, amended in November 2005, from our Board of Directors to repurchase up to $25 billion in shares of our common stock in open market or negotiated transactions. During 2007, we repurchased 111 million shares of common stock at a cost of $2.75 billion (226 million shares at a cost of $4.6 billion during 2006 and 418 million shares at a cost of $10.6 billion during 2005). We have repurchased and retired 2.9 billion shares at a cost of approximately $60 billion since the program began in 1990. As of December 29, 2007, $14.5 billion remained available for repurchase under the existing repurchase authorization.

Restricted Stock Unit Withholdings

We issue restricted stock units as part of our equity incentive plans, which are described more fully in “Note 3: Employee Equity Incentive Plans.” 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 we pay on behalf of our employees. During 2007, we withheld 1.7 million shares to satisfy $38 million of employees’ tax obligations. We paid this amount in cash to the appropriate taxing authorities. Although shares withheld are not issued, they are treated as common stock repurchases for accounting and disclosure purposes, as they reduce the number of shares that would have been issued upon vesting.

Note 6: Borrowings

Short-Term Debt

Short-term debt included non-interest-bearing drafts payable of $140 million and the current portion of long-term debt of $2 million as of December 29, 2007 (drafts payable of $178 million and the current portion of long-term debt of $2 million as of December 30, 2006). We also have the ability to borrow under our commercial paper program, which has a pre-authorized limit of up to $3.0 billion. There were no borrowings under our commercial paper program during 2007 and 2006. Our commercial paper was rated A-1+ by Standard & Poor’s and P-1 by Moody’s as of December 29, 2007.

Long-Term Debt

Our long-term debt at fiscal year-ends was as follows:

(In Millions)	2007	2006
Junior subordinated convertible debentures due 2035 at 2.95%	$ 1,586	$ 1,586
2005 Arizona bonds due 2035 at 4.375%	159	160
2007 Arizona bonds due 2037 at 5.3%	125	—
Euro debt due 2008–2018 at 7%–11%	111	103
Other debt	1	1
	1,982	1,850
Less: current portion of long-term debt	(2)	(2)
Total long-term debt	**$ 1,980**	**$ 1,848**

In 2005, we issued $1.6 billion of 2.95% junior subordinated convertible debentures (the debentures) due 2035. The debentures are convertible, subject to certain conditions, into shares of our common stock at an initial conversion rate of 31.7162 shares of common stock per $1,000 principal amount of debentures, representing an initial effective conversion price of approximately $31.53 per share of common stock. Holders can surrender the debentures for conversion at any time. The conversion rate will be subject to adjustment for certain events outlined in the indenture governing the debentures, but will not be adjusted for accrued interest. In addition, the conversion rate will increase for a holder who elects to convert the debentures in connection with certain share exchanges, mergers, or consolidations involving Intel, as described in the indenture governing the debentures. The debentures, which pay a fixed rate of interest semiannually, have a contingent interest component that will require us to pay interest based on certain thresholds and for certain events commencing on December 15, 2010, as outlined in the indenture. The maximum amount of contingent interest that will accrue is 0.40% per year. The fair value of the related embedded derivative was not significant as of December 29, 2007 or December 30, 2006.

We can settle any conversion or repurchase of the debentures in cash or stock at our option. On or after December 15, 2012, we can redeem, for cash, all or part of the debentures for the principal amount, plus any accrued and unpaid interest, if the closing price of Intel common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading-day period prior to the date on which we provide notice of redemption. If certain events occur in the future, the indenture provides that each holder of the debentures can, for a pre-defined period of time, require us to repurchase the holder's debentures for the principal amount plus any accrued and unpaid interest. The debentures are subordinated in right of payment to our existing and future senior debt and to the other liabilities of our subsidiaries. We concluded that the debentures are not conventional convertible debt instruments and that the embedded stock conversion option qualifies as a derivative under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). In addition, in accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," we have concluded that the embedded conversion option would be classified in stockholders' equity if it were a freestanding instrument. As such, the embedded conversion option is not accounted for separately as a derivative.

In 2005, we guaranteed repayment of principal and interest on bonds issued by the Industrial Development Authority of the City of Chandler, Arizona, which constitutes an unsecured general obligation for Intel. The aggregate principal amount, including the premium, of the bonds issued in 2005 (2005 Arizona bonds) was $160 million. The bonds are due in 2035 and bear interest at a fixed rate of 4.375% until 2010. The 2005 Arizona bonds are subject to mandatory tender on November 30, 2010, at which time we can re-market the bonds as either fixed-rate bonds for a specified period or as variable-rate bonds until their final maturity on December 1, 2035.

In 2007, we guaranteed repayment of principal and interest on bonds issued by the Industrial Development Authority of the City of Chandler, Arizona, which constitute an unsecured general obligation for Intel. The aggregate principal amount of the bonds issued in December 2007 (2007 Arizona bonds) is $125 million due in 2037, and the bonds bear interest at a fixed rate of 5.3%. The 2007 Arizona bonds are subject to mandatory tender, at our option, on any interest payment date beginning on or after December 1, 2012 until their final maturity on December 1, 2037. Upon such tender, we can re-market the bonds as either fixed-rate bonds for a specified period or as variable-rate bonds until their final maturity. We also entered into an interest rate swap agreement, from a fixed rate to a floating LIBOR-based return. At the beginning of the first quarter of 2008, we elected the provisions of SFAS No. 159, and we will record the 2007 Arizona bonds at fair value at each reporting date. As a result, changes in the fair value of this debt will be primarily offset by changes in the fair value of the interest rate swap, without the need to apply the hedge accounting provisions of SFAS No. 133.

We have euro borrowings, which we made in connection with financing manufacturing facilities and equipment in Ireland. We have invested the proceeds in euro-denominated loan participation notes of similar maturity to reduce currency and interest rate exposures. During 2006, we retired approximately $300 million in euro borrowings prior to their maturity dates through the simultaneous settlement of an equivalent amount of investments in loan participation notes.

At December 29, 2007, our aggregate debt maturities were as follows (in millions):

Year Payable	
2008	$ 2
2009	2
2010	160
2011	2
2012	2
2013 and thereafter	1,814
Total	**$ 1,982**

Note 7: Investments

Trading Assets

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

	2007		2006	
(In Millions)	Net Unrealized Gains	Estimated Fair Value	Net Unrealized Gains	Estimated Fair Value
Marketable debt instruments	$ 51	$ 2,074	$ 40	$ 684
Equity securities offsetting deferred compensation	163	492	138	450
Total trading assets	**$ 214**	**$ 2,566**	**$ 178**	**$ 1,134**

We designate floating-rate securitized financial instruments, such as asset-backed securities, that we purchased after December 30, 2006 as trading assets. As of December 29, 2007, the estimated fair value of these securitized financial instruments was $926 million.

Net gains on marketable debt instruments that we classified as trading assets held at the reporting date were $19 million in 2007 (gains of $31 million in 2006 and losses of $47 million in 2005). Net losses on the related derivatives were $37 million in 2007 (losses of $22 million in 2006 and gains of $52 million in 2005). Certain equity securities within the trading assets portfolio are maintained to generate returns that seek to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. These deferred compensation liabilities were $483 million in 2007 ($416 million in 2006), and are included in other accrued liabilities. Net gains on equity securities offsetting deferred compensation arrangements still held at the reporting date were $28 million in 2007 ($45 million in 2006 and $15 million in 2005).

Available-for-Sale Investments

Available-for-sale investments at December 29, 2007 and December 30, 2006 were as follows:

	2007				2006			
(In Millions)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Floating rate notes	$ 6,254	$ 3	$ (31)	$ 6,226	$ 3,508	$ 4	$ —	$ 3,512
Commercial paper	4,981	—	—	4,981	4,956	4	—	4,960
Bank time deposits[1]	1,891	1	—	1,892	1,029	1	—	1,030
Money market fund deposits	1,824	1	—	1,825	157	—	—	157
Marketable equity securities	421	616	(50)	987	233	165	—	398
Asset-backed securities	937	—	(23)	914	1,633	3	—	1,636
Corporate bonds	610	2	(8)	604	563	1	(1)	563
Repurchase agreements	150	—	—	150	450	—	—	450
Domestic government securities	121	—	—	121	116	—	—	116
Non-U.S. government securities	118	—	—	118	149	—	—	149
Total available-for-sale investments	**$ 17,307**	**$ 623**	**$ (112)**	**$ 17,818**	**$ 12,794**	**$ 178**	**$ (1)**	**$ 12,971**

(In Millions)	2007 Carrying Amount	2006 Carrying Amount
Available-for-sale investments	$ 17,818	$ 12,971
Investments in loan participation notes (cost basis)	111	103
Cash on hand	253	215
Total	**$ 18,182**	**$ 13,289**

Reported as (In Millions)	2007	2006
Cash and cash equivalents	$ 7,307	$ 6,598
Short-term investments	5,490	2,270
Marketable equity securities	987	398
Other long-term investments	4,398	4,023
Total	**$ 18,182**	**$ 13,289**

[1] *Bank time deposits were primarily issued by institutions outside the U.S. in 2007 and 2006.*

In 2007, we invested $218.5 million in VMware, Inc., a publicly traded company, in exchange for 9.5 million shares of their common stock. Our investment is recorded in marketable equity securities at a fair value of $794 million as of December 29, 2007, based on the quoted closing stock price on December 28, 2007.

We sold available-for-sale investments for proceeds of approximately $1.7 billion in 2007. The gross realized gains on these sales totaled $138 million. The realized gains on third-party merger transactions were insignificant during 2007. The recognized impairment losses on available-for-sale investments as well as gross realized losses on sales were insignificant during 2007.

We sold available-for sale investments for proceeds of approximately $2.0 billion in 2006 and $1.7 billion in 2005. The gross realized gains on these sales totaled $135 million in 2006 and $96 million in 2005. The gain in 2006 included a gain of $103 million from the sale of a portion of our investment in Micron Technology, Inc. We recognized insignificant impairment losses on available-for-sale investments in 2006 and $105 million in 2005. The impairment in 2005 represented a charge of $105 million on our investment in Micron reflecting the difference between the cost basis of the investment and the price of Micron's stock at the end of the second quarter of 2005. We realized gains on third-party merger transactions of $79 million during 2006 and an insignificant amount in 2005. Gross realized losses on sales were insignificant during 2006 and 2005.

The investments in an unrealized loss position as of December 29, 2007 were as follows:

	Less than 12 Months	
(In Millions)	**Gross Unrealized Losses**	**Estimated Fair Value**
Floating rate notes	$ (31)	$ 4,626
Asset-backed securities	(23)	914
Corporate bonds	(8)	157
Marketable equity securities	(50)	129
Total	**$ (112)**	**$ 5,826**

As of December 29, 2007, the duration of the unrealized losses for the majority of the floating rate notes, asset-backed securities purchased prior to 2007, and corporate bonds was less than six months. These unrealized losses represented an insignificant amount in relation to our total available-for-sale portfolio. Substantially all of our unrealized losses can be attributed to fair value fluctuations in an unstable credit environment. As of December 29, 2007, all of our investments in asset-backed securities were rated AAA/Aaa, and the substantial majority of the investments in floating rate notes and corporate bonds in an unrealized loss position were rated AA/Aa2 or better. Our portfolio includes $1.8 billion of asset-backed securities collateralized by first-lien mortgages, credit card debt, student loans, and auto loans. 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.

The $50 million of unrealized loss for marketable equity securities was attributed to the fair value decline in our investment in Micron. As of December 29, 2007, Micron had been trading at levels below our cost basis for less than two months, as its stock price has been impacted by weakened DRAM and NAND market segments. An oversupply within the DRAM and NAND market segments contributed to weakening average selling prices within these highly competitive market segments. We believe that the market segments will recover within a reasonable period given past cyclical patterns, and we have the intent and ability to hold our investment in Micron for a sufficient period of time to allow for recovery.

We believe that the unrealized losses in all of the above investments are temporary and that these losses do not represent a need for an other-than-temporary impairment, based on our evaluation of available evidence as of December 29, 2007.

The investments that have been in an unrealized loss position for 12 months or more were not significant as of December 29, 2007. In 2006, investments in an unrealized loss position were not significant.

The amortized cost and estimated fair value of available-for-sale and loan participation investments in debt instruments at December 29, 2007, by contractual maturity, were as follows:

(In Millions)	Cost	Estimated Fair Value
Due in 1 year or less	$ 10,203	$ 10,205
Due in 1–2 years	2,838	2,836
Due in 2–5 years	1,092	1,108
Due after 5 years	103	105
Instruments not due at a single maturity date	2,761	2,739
Total	**$ 16,997**	**$ 16,993**

Instruments not due at a single maturity date include asset-backed securities that we purchased prior to fiscal 2007, and money market fund deposits.

Non-Marketable and Other Equity Investments

Non-marketable and other equity investments are included in other long-term assets. Non-marketable and other equity investments at December 29, 2007 and December 30, 2006 were as follows:

(In Millions)	2007	2006
Carrying value:		
Non-marketable cost method investments	$ 805	$ 733
Non-marketable equity method investments	$ 2,597	$ 2,033
Marketable equity method investment	$ 508	$ —

As of December 29, 2007, our non-marketable equity method investments primarily consisted of our investment in IM Flash Technologies, LLC (IMFT). See "Note 19: Ventures" for further discussion on IMFT. As of December 30, 2006, our non-marketable equity method investments primarily consisted of our investments in IMFT and Clearwire Corporation.

As of December 29, 2007, our marketable equity method investment consisted of our investment in Clearwire in which we hold an ownership interest of 22% (27% as of December 30, 2006). In March 2007, Clearwire completed an initial public offering and is publicly traded on The NASDAQ Global Select Market*. Based on the quoted closing stock price as of December 28, 2007, the fair value of our ownership interest in Clearwire was $522 million; however, since we account for our investment under the equity method, we do not carry the investment at fair value. We record our proportionate share of Clearwire's net income (loss) on a one-quarter lag.

As of December 29, 2007, the carrying value of our investment in Clearwire exceeded our share of the book value of Clearwire's assets by $213 million. Of this amount, $108 million is considered equity method goodwill and is not amortized in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," and APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." The remaining $105 million represents our share of the difference between fair value and book value for Clearwire's net assets, of which $48 million is being amortized with a weighted average remaining life of approximately 18 years, and $57 million is not being amortized as these assets have an indefinite useful life. There were no impairment charges related to our investment in Clearwire in 2007 or 2006.

We recognized impairment losses on non-marketable equity investments of $120 million in 2007 ($79 million in 2006 and $103 million in 2005).

Note 8: Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of investments in debt instruments, derivative financial instruments, and trade receivables. We also enter into master netting arrangements with counterparties when possible to mitigate credit risk. A master netting arrangement allows amounts owed by each counterparty from separate transactions to be net settled.

We generally place investments with high-credit-quality counterparties and, by policy, limit the amount of credit exposure to any one counterparty based on our periodic analysis of that counterparty's relative credit standing. Substantially all of our investments in debt instruments are with A/A2 or better rated issuers, and the substantial majority are with 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. Credit rating criteria for derivative instruments are similar to those for investments. The amounts subject to credit risk related to derivative instruments are generally limited to the amounts, if any, by which a counterparty's obligations exceed our obligations with that counterparty. At December 29, 2007, the total credit exposure to any single counterparty did not exceed $500 million. We obtain and secure available collateral from counterparties against obligations, including securities lending transactions, when deemed appropriate.

A substantial majority of our trade receivables are derived from sales to original equipment manufacturers and original design manufacturers of computer systems, handheld devices, and networking and communications equipment. We also have accounts receivable derived from sales to industrial and retail distributors. Our two largest customers accounted for 35% of net revenue for 2007, 2006, and 2005. Additionally, these two largest customers accounted for 35% of our accounts receivable at December 29, 2007 and December 30, 2006. We believe that the receivable balances from these largest customers do not represent a significant credit risk based on cash flow forecasts, balance sheet analysis, and past collection experience.

We have adopted credit policies and standards intended to accommodate industry growth and inherent risk. We believe that credit risks are moderated by the financial stability of our customers and diverse geographic sales areas. We assess credit risk through quantitative and qualitative analysis, and from this analysis, we establish credit limits and determine whether we will seek to use one or more credit support devices, such as obtaining some form of third-party guaranty or standby letter of credit, or obtaining credit insurance for all or a portion of the account balance if necessary.

Note 9: Gains (Losses) on Equity Investments, Net

Gains (losses) on equity investments, net for the three years ended December 29, 2007 were as follows:

(In Millions)	2007	2006	2005
Impairment charges	$ (120)	$ (79)	$ (208)
Gains on sales	214	153	101
Other, net	63	140	62
Total gains (losses) on equity investments, net	**$ 157**	**$ 214**	**$ (45)**

During 2007, we received approximately $110 million of dividend income from one of our investments, included in the table above under "other, net." Also included in this category are our equity method losses, primarily from our investment in Clearwire.

During 2006, the gains on sales of equity investments included the gain of $103 million on the sale of a portion of our investment in Micron, which was sold for $275 million. During 2005, the impairment charges of $208 million included a $105 million impairment charge on our investment in Micron.

Note 10: Interest and Other, Net

The components of interest and other, net were as follows:

(In Millions)	2007	2006	2005
Interest income	$ 804	$ 636	$ 577
Interest expense	(15)	(24)	(19)
Other, net	4	590	7
Total interest and other, net	**$ 793**	**$ 1,202**	**$ 565**

During 2006, we realized gains of $612 million for three completed divestitures, included within "other, net" in the table above. See "Note 13: Divestitures" for further discussion.

Note 11: Comprehensive Income

The components of total comprehensive income were as follows:

(In Millions)	2007	2006	2005
Net income	$ 6,976	$ 5,044	$ 8,664
Other comprehensive income (loss)	318	26	(25)
Total comprehensive income	**$ 7,294**	**$ 5,070**	**$ 8,639**

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

	2007			2006			2005		
(In Millions)	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax
Change in unrealized holding gain on investments	$ 420	$ (155)	$ 265	$ 94	$ (33)	$ 61	$ 161	$ (60)	$ 101
Less: adjustment for gain on investments included in net income	(85)	31	(54)	(75)	27	(48)	(60)	22	(38)
Change in unrealized holding gain or loss on derivatives	80	(21)	59	59	(22)	37	(67)	25	(42)
Less: adjustment for amortization of gain or loss on derivatives included in net income	(55)	16	(39)	9	(3)	6	(60)	22	(38)
Change in prior service costs	4	(1)	3	—	—	—	—	—	—
Change in actuarial loss	106	(22)	84	—	—	—	—	—	—
Minimum pension liability	—	—	—	(36)	6	(30)	(13)	5	(8)
Total other comprehensive income (loss)	**$ 470**	**$ (152)**	**$ 318**	**$ 51**	**$ (25)**	**$ 26**	**$ (39)**	**$ 14**	**$ (25)**

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

(In Millions)	2007	2006
Accumulated net unrealized holding gain on available-for-sale investments	$ 324	$ 113
Accumulated net unrealized holding gain on derivatives	100	80
Accumulated net prior service costs	(13)	(16)
Accumulated net actuarial losses	(148)	(232)
Accumulated transition obligation	(2)	(2)
Total accumulated other comprehensive income (loss)	**$ 261**	**$ (57)**

In the table above, accumulated net unrealized holding gain on available-for-sale investments included $364 million as of December 29, 2007 related to our investment in VMware, net of tax of $212 million.

For 2007, we reclassified $39 million of net deferred holding gains on derivatives from accumulated other comprehensive income (loss) to cost of sales and operating expenses related to our non-U.S.-currency capital purchase and operating cost hedging programs (losses of $6 million in 2006 and gains of $38 million in 2005). We estimate that we will reclassify less than $45 million of net derivative gains included in other accumulated comprehensive income (loss) into earnings within the next 12 months. For all periods presented, the portion of hedging instruments' gains or losses excluded from the assessment of effectiveness and the ineffective portions of hedges had an insignificant impact on earnings for cash flow hedges. Additionally, for all periods presented, there was no significant impact on results of operations from discontinued cash flow hedges as a result of forecasted transactions that did not occur.

The estimated net prior service cost, actuarial loss, and transition obligation for the defined benefit plan that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during fiscal year 2008 are $4 million, $9 million, and zero, respectively.

We recorded the adjustment for initially applying SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158) in 2006, net of tax, to accumulated other comprehensive income (loss) for $210 million as of December 30, 2006. See "Note 18: Retirement Benefit Plans."

Note 12: Acquisitions

Consideration for acquisitions that qualify as business combinations includes the cash paid and the value of any options assumed, less any cash acquired, and excludes contingent employee compensation payable in cash and any debt assumed. During 2007, we completed one acquisition qualifying as a business combination in exchange for aggregate net cash consideration of $76 million, plus certain liabilities. We allocated a substantial majority of this consideration to goodwill. The acquired business and related goodwill was recorded within the all other category for segment reporting purposes. During 2006, we did not complete any acquisitions qualifying as business combinations. During 2005, we completed three acquisitions qualifying as business combinations in exchange for aggregate net cash consideration of $177 million, plus certain liabilities. We allocated most of this consideration to goodwill. The acquired businesses and related goodwill were recorded within the all other category for segment reporting purposes.

Note 13: Divestitures

In September 2006, we completed the divestiture of our media and signaling business and associated assets that were included in the Digital Enterprise Group operating segment. We received $75 million in cash consideration. Approximately 375 employees of our media and signaling business became employees of the acquiring company. As a result of this divestiture, we recorded a reduction of goodwill for $4 million. Additionally, we recorded a net gain of $52 million within interest and other, net.

In September 2006, we completed the divestiture of certain product lines and associated assets of our optical networking components business that were included in the Digital Enterprise Group operating segment. Consideration for the divestiture was $115 million, including $86 million in cash, and shares of the acquiring company with an estimated value of $29 million. Approximately 55 employees of our optical networking components business became employees of the acquiring company. As a result of this divestiture, we recorded a reduction of goodwill of $6 million. Additionally, we recorded a net gain of $77 million within interest and other, net.

In November 2006, we completed the divestiture of certain assets of our communications and application processor business to Marvell Technology Group, Ltd. for a cash purchase price of $600 million, plus the assumption of certain liabilities. We included the operating results associated with the divested assets of our communications and application processor business in the Mobility Group operating segment. Intel and Marvell also entered into an agreement whereby we provided certain manufacturing and transition services to Marvell. Approximately 1,300 employees of our communications and application processor business, involved in a variety of functions including engineering, product testing and validation, operations, and marketing, became employees of Marvell. As a result of this divestiture, we recorded a reduction of goodwill of $2 million. Additionally, we recorded a net gain of $483 million within interest and other, net.

In May 2007, we announced that we entered into an agreement to form a private, independent semiconductor company with STMicroelectronics N.V. and Francisco Partners L.P. The new company, named Numonyx, is expected to supply flash memory solutions for wireless communications, consumer devices, and other applications. We expect to exchange certain NOR flash memory assets and certain assets associated with our phase change memory initiatives with Numonyx for a 45.1% ownership interest. STMicroelectronics is expected to sell certain assets and obtain a 48.6% ownership interest. Francisco Partners is expected to contribute $150 million for a 6.3% ownership interest. We expect to enter into supply and transition service agreements to provide products, services, and support to Numonyx following the close of the transaction.

As of December 29, 2007, approximately $690 million of NOR flash memory assets were classified as held for sale within other current assets. The disposal group consisted primarily of property, plant and equipment and inventory. We ceased recording depreciation on property, plant and equipment that we classified as held for sale beginning in the second quarter of 2007. In the fourth quarter of 2007, we recorded asset impairment charges of $85 million related to assets expected to be exchanged in this divestiture. See “Note 16: Restructuring and Asset Impairment Charges” for additional information.

Subject to satisfaction of the closing conditions, we expect the transaction to close by the end of the first quarter of 2008. Should the transaction not close, we could incur additional costs such as recapture of the suspended depreciation.

Note 14: Identified Intangible Assets

We classify identified intangible assets within other long-term assets. Identified intangible assets consisted of the following as of December 29, 2007:

(In Millions)	Gross Assets	Accumulated Amortization	Net
Intellectual property assets	$ 1,158	$ (438)	$ 720
Acquisition-related developed technology	19	(3)	16
Other intangible assets	360	(136)	224
Total identified intangible assets	**$ 1,537**	**$ (577)**	**$ 960**

During 2007, we acquired intellectual property assets for $170 million with a weighted average life of 11 years. The majority of the intellectual property assets acquired represent the fair value of assets capitalized as a result of a settlement agreement with Transmeta Corporation. Pursuant to the agreement, we agreed to pay Transmeta a total of $250 million in exchange for a technology license and other consideration (see “Note 21: Contingencies”). The present value of the settlement was $236 million, of which $113 million was charged to cost of sales. The charge to cost of sales related to the portion of the license attributable to certain product sales through the third quarter of 2007. The remaining $123 million represented the value of the intellectual property assets capitalized and is being amortized to cost of sales over the assets’ remaining useful lives.

During 2007, we acquired acquisition-related developed technology for $15 million with a weighted average life of four years, and recorded other intangible assets of $40 million with a weighted average life of four years.

Identified intangible assets consisted of the following as of December 30, 2006:

(In Millions)	Gross Assets	Accumulated Amortization	Net
Intellectual property assets	$ 1,143	$ (434)	$ 709
Acquisition-related developed technology	4	(2)	2
Other intangible assets	349	(73)	276
Total identified intangible assets	**$ 1,496**	**$ (509)**	**$ 987**

During 2006, we acquired intellectual property assets for $293 million with a weighted average life of seven years. Additionally, during 2006, there were $300 million in additions to other intangible assets with a weighted average life of four years.

All of our identified intangible assets are subject to amortization. We recorded the amortization of identified intangible assets on the consolidated statements of income as follows: intellectual property assets generally in cost of sales, acquisition-related developed technology in amortization of acquisition-related intangibles and costs, and other intangible assets as either a reduction of revenue or amortization of acquisition-related intangibles and costs. The amortization expense for the three years ended December 29, 2007 were as follows:

(In Millions)	2007	2006	2005
Intellectual property assets	$ 159	$ 178	$ 123
Acquisition-related developed technology	$ 1	$ 20	$ 86
Other intangible assets	$ 92	$ 59	$ 32

Based on identified intangible assets recorded at December 29, 2007, and assuming that the underlying assets are not impaired in the future, we expect amortization expense for each period to be as follows:

(In Millions)	2008	2009	2010	2011	2012
Intellectual property assets	$ 161	$ 133	$ 122	$ 71	$ 60
Acquisition-related developed technology	$ 5	$ 4	$ 4	$ 3	$ —
Other intangible assets	$ 96	$ 118	$ 10	$ —	$ —

Note 15: Goodwill

Goodwill activity attributed to reportable operating segments for the years ended December 29, 2007 and December 30, 2006 was as follows:

(In Millions)	Digital Enterprise Group	Mobility Group	All Other	Total
December 31, 2005	**$ 3,400**	**$ 250**	**$ 223**	**$ 3,873**
Divestitures	(10)	(2)	—	(12)
December 30, 2006	**3,390**	**248**	**223**	**3,861**
Addition	—	—	60	60
Other	(5)	—	—	(5)
December 29, 2007	**$ 3,385**	**$ 248**	**$ 283**	**$ 3,916**

During 2007, we completed one acquisition that resulted in goodwill of $60 million. See “Note 12: Acquisitions” for further discussion. During 2006, we completed three divestitures that resulted in a reduction of $12 million in goodwill. See “Note 13: Divestitures” for further discussion.

We concluded that goodwill was not impaired during 2007, 2006, and 2005.

Note 16: 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 the efficiency program. See “Note 13: Divestitures” 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 the 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” 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.

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 include a total of $527 million related to employee severance and benefit arrangements due to the termination of approximately 9,900 employees, and $544 million in asset impairment charges. We may incur additional restructuring charges in the future for employee severance and benefit arrangements, and facility-related or other exit activities.

Note 17: Taxes

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

(Dollars in Millions)	2007	2006	2005
Income before taxes:			
U.S.	$ 6,520	$ 4,532	$ 10,397
Non-U.S.	2,646	2,536	2,213
Total income before taxes	**$ 9,166**	**$ 7,068**	**$ 12,610**
Provision for taxes:			
Current:			
Federal	$ 1,865	$ 1,997	$ 3,546
State	111	15	289
Non-U.S.	445	337	524
	2,421	2,349	4,359
Deferred:			
Federal	(140)	(305)	(360)
Other	(91)	(20)	(53)
	(231)	(325)	(413)
Total provision for taxes	**$ 2,190**	**$ 2,024**	**$ 3,946**
Effective tax rate	**23.9%**	**28.6%**	**31.3%**

The difference between the tax provision at the statutory federal income tax rate and the tax provision as a percentage of income before income taxes was as follows:

(In Percentages)	2007	2006	2005
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (reduction) in rate resulting from:			
State taxes, net of federal benefits	0.6	0.8	1.3
Non-U.S. income taxed at different rates	(4.7)	(4.3)	(2.0)
Settlements	(5.3)	—	—
Research and development tax credits	(1.3)	(0.8)	(0.5)
Domestic manufacturing deduction benefit	(1.1)	(0.9)	(0.8)
Export sales benefit	—	(2.1)	(2.8)
Repatriation of prior years' permanently reinvested earnings	—	—	1.8
Share-based compensation	0.3	0.7	—
Other	0.4	0.2	(0.7)
Income tax rate	**23.9%**	**28.6%**	**31.3%**

During 2007, the tax benefit that we realized for the tax deduction from option exercises and other awards totaled $265 million ($139 million in 2006 and $351 million in 2005).

The American Jobs Creation Act of 2004 (the Jobs Act) created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends-received deduction for certain dividends from controlled non-U.S. corporations. During 2005, our Chief Executive Officer and Board of Directors approved a domestic reinvestment plan under which we repatriated $6.2 billion in earnings outside the U.S. pursuant to the Jobs Act. We recorded additional tax expense in 2005 of approximately $265 million related to this decision to repatriate non-U.S. earnings.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of our deferred tax assets and liabilities at fiscal year-ends were as follows:

(In Millions)	2007	2006
Deferred tax assets		
Accrued compensation and other benefits	$ 438	$ 284
Accrued advertising	29	—
Deferred income	222	217
Share-based compensation	542	385
Inventory valuation	315	268
Impairment losses on equity investments	116	89
State credits and net operating losses	133	115
Intercompany profit in inventory	123	133
Unremitted earnings of non-U.S. subsidiaries	32	54
Other, net	331	272
	2,281	1,817
Valuation allowance	(133)	(87)
Total deferred tax assets	**$ 2,148**	**$ 1,730**
Deferred tax liabilities		
Depreciation and amortization	$ (759)	$ (530)
Accrued advertising	—	(66)
Unrealized gains on investments	(227)	(149)
Other, net	(106)	(111)
Total deferred tax liabilities	**$ (1,092)**	**$ (856)**
Net deferred tax assets	**$ 1,056**	**$ 874**
Reported as:		
Current deferred tax assets	$ 1,186	$ 997
Current deferred tax liabilities[1]	—	(8)
Non-current deferred tax assets[2]	281	150
Non-current deferred tax liabilities	(411)	(265)
Net deferred taxes	**$ 1,056**	**$ 874**

[1] *Included within other accrued liabilities on the consolidated balance sheets.*

[2] *Included within other long-term assets on the consolidated balance sheets.*

We had state tax credits of $155 million at December 29, 2007 that will expire between 2009 and 2020. The net deferred tax asset valuation allowance was $133 million at December 29, 2007 compared to $87 million at December 30, 2006. The valuation allowance is based on our assessment that it is more likely than not that certain deferred tax assets will not be realized in the foreseeable future. The valuation allowance is composed of unrealized state capital loss carry forwards and unrealized state credit carry forwards of $91 million, and operating loss of non-U.S. subsidiaries of $42 million.

As of December 29, 2007, U.S. income taxes were not provided for on a cumulative total of approximately $6.3 billion of undistributed earnings for certain non-U.S. subsidiaries. Determination of the amount of unrecognized deferred tax liability for temporary differences related to investments in these non-U.S. subsidiaries that are essentially permanent in duration is not practicable. We currently intend to reinvest those earnings in operations outside the U.S.

Effective at the beginning of the first quarter of 2007, we adopted the provisions of FIN 48. As a result of the implementation of FIN 48, we reduced the liability for net unrecognized tax benefits by $181 million, and accounted for the reduction as a cumulative effect of a change in accounting principle that resulted in an increase to retained earnings of $181 million.

We have historically classified unrecognized tax benefits in current taxes payable. As a result of adoption of FIN 48, we reclassified unrecognized tax benefits to long-term 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.

The aggregate changes in the balance of gross unrecognized tax benefits were as follows:

(In Millions)	
Beginning balance as of December 31, 2006 (date of adoption)	**$ 1,896**
Settlements and effective settlements with tax authorities and related remeasurements	(1,243)
Lapse of statute of limitations	—
Increases in balances related to tax positions taken during prior periods	106
Decreases in balances related to tax positions taken during prior periods	(26)
Increases in balances related to tax positions taken during current period	61
December 29, 2007	**$ 794**

During 2007, the U.S. Internal Revenue Service (IRS) closed its examination of our tax returns for the years 1999 through 2002, resolving the issues related to the tax benefits for export sales as well as a number of other issues. Additionally, we reached a settlement with the IRS for years 2003 through 2005 with respect to the tax benefits for export sales. In connection with the $739 million settlement with the IRS, we reversed long-term income taxes payable, which resulted in a $276 million tax benefit in 2007.

Also during 2007, we effectively settled with the IRS on several other matters related to the audit for the 2003 and 2004 tax years, despite the fact that the IRS audit for these years remains open. The result of effectively settling these positions and the process of re-evaluating, based on all available information and certain required remeasurements, was a reduction of $389 million in the balance of our gross unrecognized tax benefits, $155 million of which resulted in a tax benefit in 2007.

If the remaining balance of $794 million of unrecognized tax benefits at December 29, 2007 were realized in a future period, it would result in a tax benefit of $754 million and a reduction of the effective tax rate.

During all years presented, we recognized interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated statements of income. Therefore, no change was necessary upon adoption of FIN 48. In 2007, we recognized a net benefit of $142 million, primarily due to the reversal of accrued interest and penalties related to the settlement activity described above. As of December 29, 2007, we had $115 million, and as of the date of adoption we had $257 million, of accrued interest and penalties related to unrecognized tax benefits.

Although the timing of the resolution and/or closure on audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. However, given the number of years remaining subject to examination and the number of matters being examined, we are unable to estimate the range of possible adjustments to the balance of gross unrecognized tax benefits.

We file U.S. federal, U.S. state, and non-U.S. tax returns. For U.S. state and non-U.S. tax returns, we are generally no longer subject to tax examinations for years prior to 1996. For U.S. federal tax returns, we are no longer subject to tax examination for years prior to 2003.

Note 18: Retirement Benefit Plans

Profit Sharing Plans

We provide tax-qualified profit sharing retirement plans for the benefit of eligible employees, former employees, and retirees in the U.S. and certain other countries. The plans are designed to provide employees with an accumulation of funds for retirement on a tax-deferred basis and provide for annual discretionary employer contributions. Our Chief Executive Officer determines the amounts to be contributed to the U.S. Profit Sharing Plan under delegation of authority from our Board of Directors, pursuant to the terms of the Profit Sharing Plan. As of December 29, 2007, 80% of our U.S. Profit Sharing Fund was invested in equities and 20% was invested in fixed-income instruments. All assets are managed by external investment managers.

For the benefit of eligible U.S. employees, we also provide a non-tax-qualified supplemental deferred compensation plan for certain highly compensated employees. This plan is designed to permit certain discretionary employer contributions and to permit employee deferral of a portion of salaries in excess of certain tax limits and deferral of bonuses. This plan is unfunded.

We expensed $302 million for the qualified and non-qualified U.S. profit sharing retirement plans in 2007 ($313 million in 2006 and $355 million in 2005). In the first quarter of 2008, we funded $296 million for the 2007 contribution to the U.S. qualified Profit Sharing Plan and $9 million for the supplemental deferred compensation plan for certain highly compensated employees.

Contributions that we make to the U.S. Profit Sharing Plan on behalf of our employees vest based on the employee's years of service. As of December 29, 2007, employees vested after three years of service in 20% annual increments until the employee was 100% vested after seven years, or earlier if the employee reached age 60. We amended the U.S. Profit Sharing Plan vesting schedule to comply with the Pension Protection Act of 2006 (PPA), which requires employers to fully vest employees after six years of service. As a result, as of the beginning of 2008, vesting occurs after two years of service in 20% annual increments until the employee is 100% vested after six years, or earlier if the employee reaches age 60. We also implemented this change in the U.S. defined-benefit plan.

Pension and Postretirement Benefit Plans

Effective at the end of fiscal year 2006, we adopted the provisions of SFAS No. 158. SFAS No. 158 requires that the funded status of defined-benefit postretirement plans be recognized on our consolidated balance sheets, and that changes in the funded status be reflected in other comprehensive income. SFAS No. 158 also requires that the measurement date of the plan's funded status be the same as our fiscal year-end. Prior to adopting the provisions of SFAS No. 158, the measurement date for all non-U.S. plans was our fiscal year-end, and the measurement date for the U.S. plan was November. Therefore, the change in measurement date had an insignificant impact on the projected benefit obligation and accumulated other comprehensive income (loss). Upon adoption of SFAS No. 158 in 2006, we recorded an adjustment, net of tax, of $210 million to accumulated other comprehensive income (loss).

U.S. Pension Benefits. We provide a tax-qualified defined-benefit pension plan for the benefit of eligible employees and retirees in the U.S. The plan provides for a minimum pension benefit that is determined by a participant's years of service and final average compensation (taking into account the participant's social security wage base), reduced by the participant's balance in the U.S. Profit Sharing Plan. If the pension benefit exceeds the participant's balance in the U.S. Profit Sharing Plan, the participant will receive a combination of pension and profit sharing amounts equal to the pension benefit. However, the participant will receive only the benefit from the Profit Sharing Plan if that benefit is greater than the value of the pension benefit. If we do not continue to contribute to, or significantly reduce contributions to, the U.S. Profit Sharing Plan, the U.S. defined-benefit plan projected benefit obligation could increase significantly. In 2007, we amended the U.S. Defined Benefit Plan lump sum conversion rates, mortality tables, and minimum funding targets to comply with the PPA.

Non-U.S. Pension Benefits. We also provide defined-benefit pension plans in certain other countries. Consistent with the requirements of local law, we deposit funds for certain plans with insurance companies, third-party trustees, or into government-managed accounts, and/or accrue for the unfunded portion of the obligation. The assumptions used in calculating the obligation for the non-U.S. plans depend on the local economic environment.

Postretirement Medical Benefits. Upon retirement, eligible U.S. employees are credited with a defined dollar amount based on years of service. These credits can be used to pay all or a portion of the cost to purchase coverage in an Intel-sponsored medical plan. If the available credits are not sufficient to pay the entire cost of the coverage, the remaining cost is the responsibility of the retiree.

Funding Policy. Our practice is to fund the various pension plans in amounts sufficient to meet the minimum requirements of U.S. federal laws and regulations or applicable local laws and regulations. Additional funding may be provided as deemed appropriate. The assets of the various plans are invested in corporate equities, corporate debt instruments, government securities, and other institutional arrangements. The portfolio of each plan depends on plan design and applicable local laws. Depending on the design of the plan, local customs, and market circumstances, the liabilities of a plan may exceed qualified plan assets. We accrue for all such liabilities.

Benefit Obligation and Plan Assets

The changes in the benefit obligations and plan assets for the plans described above were as follows:

(In Millions)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Postretirement Medical Benefits	
	2007	2006	2007	2006	2007	2006
Change in projected benefit obligation:						
Beginning benefit obligation	$ 345	$ 317	$ 686	$ 473	$ 204	$ 193
Service cost	18	4	70	50	12	12
Interest cost	17	13	37	27	11	10
Plan participants' contributions	—	—	10	9	3	3
Actuarial (gain) loss	(31)	13	(59)	115	(11)	(8)
Currency exchange rate changes	—	—	77	43	—	—
Plan amendments	(25)	—	—	—	—	—
Benefits paid to plan participants	(33)	(2)	(27)	(31)	(6)	(6)
Ending projected benefit obligation	**$ 291**	**$ 345**	**$ 794**	**$ 686**	**$ 213**	**$ 204**

(In Millions)	U.S. Pension Benefits		Non-U.S. Pension Benefits		Postretirement Medical Benefits	
	2007	2006	2007	2006	2007	2006
Change in plan assets:						
Beginning fair value of plan assets	$ 245	$ 226	$ 447	$ 340	$ 1	$ 2
Actual return on plan assets	15	12	20	41	(1)	(1)
Employer contributions	—	9	52	60	4	3
Plan participants' contributions	—	—	10	9	3	3
Currency exchange rate changes	—	—	49	28	—	—
Benefits paid to participants	(33)	(2)	(30)	(31)	(6)	(6)
Ending fair value of plan assets	**$ 227**	**$ 245**	**$ 548**	**$ 447**	**$ 1**	**$ 1**

The following table summarizes the amounts recognized on the consolidated balance sheet as of December 29, 2007:

(In Millions)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Postretirement Medical Benefits
Other long-term assets	$ —	$ 53	$ —
Accrued compensation and benefits	—	(6)	(10)
Other long-term liabilities	(64)	(293)	(202)
Accumulated other comprehensive loss	49	146	15
Net amount recognized	**$ (15)**	**$ (100)**	**$ (197)**

The following table summarizes the amounts recorded to accumulated other comprehensive income (loss) before taxes, as of December 29, 2007:

(In Millions)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Postretirement Medical Benefits
Net prior service cost	$ —	$ —	$ (21)
Net actuarial gain (loss)	(49)	(144)	6
Reclassification adjustment of transition obligation	—	(2)	—
Defined benefit plans, net	**$ (49)**	**$ (146)**	**$ (15)**

The following table summarizes the amounts recognized on the consolidated balance sheet as of December 30, 2006:

(In Millions)	U.S. Pension Benefits	Non-U.S. Pension Benefits	Postretirement Medical Benefits
Other long-term assets	$ —	$ 44	$ —
Accrued compensation and benefits	—	(6)	(9)
Other long-term liabilities	(100)	(277)	(194)
Accumulated other comprehensive loss	91	208	21
Net amount recognized	**$ (9)**	**$ (31)**	**$ (182)**

Included in the aggregate data in the tables below are the amounts applicable to our pension plans with accumulated benefit obligations in excess of plan assets, as well as plans with projected benefit obligations in excess of plan assets. Amounts related to such plans were as follows:

	U.S. Pension Benefits		Non-U.S. Pension Benefits	
(In Millions)	2007	2006	2007	2006
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligations	$ —	$ —	$ 155	$ 330
Plan assets	$ —	$ —	$ 31	$ 211
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	$ 291	$ 345	$ 573	$ 494
Plan assets	$ 227	$ 245	$ 274	$ 211

Assumptions

Weighted-average actuarial assumptions used to determine benefit obligations for the plans were as follows:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Postretirement Medical Benefits	
	2007	2006	2007	2006	2007	2006
Discount rate	5.6%	5.5%	5.5%	5.3%	5.6%	5.5%
Rate of compensation increase	5.0%	5.0%	4.5%	4.6%	—	—

For the postretirement medical benefit plan, an increase in the assumed healthcare cost trend rate of one percentage point each year would not have a significant impact on the benefit obligation because the plan provides defined credits that the retiree can use to pay all or a portion of the cost to purchase medical coverage.

Weighted-average actuarial assumptions used to determine costs for the plans were as follows:

	U.S. Pension Benefits		Non-U.S. Pension Benefits		Postretirement Medical Benefits	
	2007	2006	2007	2006	2007	2006
Discount rate	5.5%	5.4%	5.2%	5.4%	5.5%	5.6%
Expected return on plan assets	5.6%	5.6%	6.2%	6.0%	—	—
Rate of compensation increase	5.0%	5.0%	4.5%	4.2%	—	—

For the U.S. plan, we developed the discount rate by calculating the benefit payment streams by year to determine when benefit payments will be due. We then matched the benefit payment streams by year to U.S. Treasury zero coupon strips to match the timing and amount of the expected benefit payments. We adjusted the zero coupon rate by a historical credit risk spread, and discounted it back to the measurement date to determine the appropriate discount rate. For the non-U.S. plans, we developed the discount rate by analyzing long-term bond rates and matching the bond maturity with the average duration of the pension liabilities. We consider several factors in developing the asset return assumptions for the U.S. and non-U.S. plans. We analyzed rates of return relevant to the country where each plan is in effect and the investments applicable to the plan, expectations of future returns, local actuarial projections, and the projected rates of return from investment managers. The expected long-term rate of return shown for the non-U.S. plan assets is weighted to reflect each country's relative portion of the non-U.S. plan assets.

Net Periodic Benefit Cost

The net periodic benefit cost for the plans included the following components:

	U.S. Pension Benefits			Non-U.S. Pension Benefits			Postretirement Medical Benefits		
(In Millions)	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Service cost	$ 18	$ 4	$ 4	$ 70	$ 51	$ 31	$ 6	$ 12	$ 11
Interest cost	17	13	2	37	27	18	11	10	10
Expected return on plan assets	(10)	(12)	(3)	(29)	(15)	(18)	—	—	—
Amortization of prior service cost	(25)	—	—	1	—	—	4	4	4
Recognized net actuarial loss	7	—	—	11	—	—	—	—	—
Net periodic benefit cost	**$ 7**	**$ 5**	**$ 3**	**$ 90**	**$ 63**	**$ 31**	**$ 21**	**$ 26**	**$ 25**

U.S. Plan Assets

In general, we design the investment strategy for U.S. plan assets to assure that the pension assets are available to pay benefits as they come due and to minimize market risk. When deemed appropriate, we may invest a portion of the fund in futures contracts for the purpose of acting as a temporary substitute for an investment in a particular equity security. The fund does not engage in speculative futures transactions. The expected long-term rate of return for the U.S. plan assets is 5.1%.

The asset allocation for our U.S. Pension Plan at the end of fiscal years 2007 and 2006, and the target allocation rate for 2008, by asset category, are as follows:

		Percentage of Plan Assets	
Asset Category	**Target Allocation**	**2007**	**2006**
Equity securities	10%–20%	15.0%	14.0%
Debt instruments	80%–90%	85.0%	86.0%

Non-U.S. Plan Assets

The non-U.S. plans' investments are managed by insurance companies, third-party trustees, or pension funds consistent with regulations or market practice of the country where the assets are invested. The investment manager makes investment decisions within the guidelines set by us or local regulations. Performance is evaluated by comparing the actual rate of return to the return on other similar assets. Investments managed by qualified insurance companies or pension funds under standard contracts follow local regulations, and we are not actively involved in their investment strategies. In general, the investment strategy followed is designed to accumulate a diversified portfolio among markets, asset classes, or individual securities in order to reduce market risk and assure that the pension assets are available to pay benefits as they come due. The average expected long-term rate of return for the non-U.S. plan assets is 6.7%.

The asset allocation for our non-U.S. plans, excluding assets managed by qualified insurance companies, at the end of fiscal years 2007 and 2006, and the target allocation rate for 2008, by asset category, are as follows:

		Percentage of Plan Assets	
Asset Category	**Target Allocation**	**2007**	**2006**
Equity securities	67.0%	67.0%	68.0%
Debt instruments	8.0%	8.0%	8.0%
Other	25.0%	25.0%	24.0%

Investment assets managed by qualified insurance companies are invested as part of the insurance companies' general fund. We do not have control over the target allocation of those investments. Those investments made up 31% of total non-U.S. plan assets in 2007 and 2006.

Funding Expectations

Under applicable law for the U.S. Pension Plan, we are not required to make any contributions during 2008. We intend to make voluntary contributions if the plan assets are less than the accumulated benefit obligation at the end of the year. Our expected funding for the non-U.S. plans during 2008 is approximately $64 million. We expect employer contributions to the postretirement medical benefits plan to be approximately $12 million during 2008.

Estimated Future Benefit Payments

We expect the benefits to be paid through 2017 from the U.S. and non-U.S. pension plans and other postretirement benefit plans to be approximately $100 million annually.

Note 19: Ventures

In January 2006, Micron and Intel formed IM Flash Technologies, LLC (IMFT) and in February 2007 formed IM Flash Singapore, LLP (IMFS). We established these joint ventures to manufacture NAND flash memory products for Micron and Intel. We own a 49% interest in each of these ventures. Initial production from IMFT began in early 2006; IMFS is in its construction phase and has had no production to date. Our investments were $2.2 billion in IMFT and $146 million in IMFS as of December 29, 2007 ($1.3 billion in IMFT as of December 30, 2006), which represents our maximum exposure to loss. Our investments in these ventures are classified within other long-term assets.

As part of the initial capital contribution to IMFT, we paid $615 million in cash and issued $581 million in non-interest-bearing notes. During 2006, we paid the entire balance of $581 million to settle the non-interest-bearing notes, which has been reflected as a financing activity on the consolidated statements of cash flows. At inception, in exchange for a 51% interest, Micron contributed assets valued at $995 million and $250 million in cash.

Concurrent with the formation of IMFT, we paid Micron $270 million for product designs that Micron developed as well as certain other intellectual property. We own the rights to all product designs and have licensed the designs to Micron. Micron paid Intel $40 million to license these initial product designs and will pay additional royalties on new product designs. We recorded our net investment in this technology of $230 million as an identified intangible asset, which we included in the intellectual property asset classification. The identified intangible asset is being amortized into cost of sales over its expected five-year life. Costs that Intel and Micron have incurred for product and process development related to IMFT are generally split evenly between Intel and Micron and are classified in R&D.

Subject to certain conditions, we 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 commitment was approximately $260 million for IMFT and approximately $1.5 billion for IMFS. Additionally, our portion of IMFT costs, primarily related to product purchases and start-up, was approximately $790 million during 2007 (approximately $300 million during 2006). The amount due to IMFT for product purchases and services provided was approximately $130 million as of December 29, 2007 and was not significant as of December 30, 2006.

IMFT and IMFS are each governed by a Board of Managers, with Micron and Intel initially appointing an equal number of managers to each of the boards. The number of managers appointed by each party adjusts depending on the parties' ownership interests. These ventures will operate until 2016, but are subject to prior termination under certain terms and conditions.

These joint ventures are variable interest entities as defined by FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" (FIN 46(R)), because all positive and negative variances in cost structure will be passed on to Micron and Intel through our purchase agreements. However, we have determined that we are not the primary beneficiary of these joint ventures, and as such, we account for our interests using the equity method of accounting and do not consolidate these joint ventures. Micron and Intel are also considered related parties under the provisions of FIN 46(R).

We have entered into a long-term agreement with Apple, Inc. to supply a portion of the NAND flash memory output that we will purchase from IMFT through December 31, 2010. In January 2006, Apple pre-paid Intel a refundable $250 million that will be applied to Apple's purchases of NAND flash memory beginning in 2008.

Note 20: Commitments

A portion of our capital equipment and certain facilities are under operating leases that expire at various dates through 2021. Additionally, portions of our land are under leases that expire at various dates through 2062. Rental expense was $154 million in 2007 ($160 million in 2006 and $150 million in 2005).

Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows (in millions):

Year Payable	
2008	$ 95
2009	73
2010	44
2011	30
2012	26
2013 and thereafter	52
Total	**$ 320**

Commitments for construction or purchase of property, plant and equipment decreased from $3.3 billion at December 30, 2006 to $2.3 billion at December 29, 2007. Other purchase obligations and commitments as of December 29, 2007 totaled $1.7 billion. Other purchase obligations and commitments include payments due under various types of licenses, agreements to purchase raw material 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. In addition, we have various contractual commitments with Micron, IMFT, and IMFS (see "Note 19: Ventures").

Note 21: Contingencies

Tax Matters

In connection with the regular examination of our tax returns for the years 1999 through 2005, the IRS had formally assessed adjustments to the amounts that we had recorded on those returns as a tax benefit for export sales. In 2007, we resolved these matters with the IRS. See "Note 17: Taxes" for further discussion.

Legal Proceedings

We are currently a party to various legal proceedings, including those noted in this section. While management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm the company's financial position, cash flows, or overall trends in results of operations, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include money damages or, in cases for which injunctive relief is sought, an injunction prohibiting us from selling one or more products at all or in particular ways. Were an unfavorable ruling to occur, our business or results of operations could be materially harmed.

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

In June 2005, AMD filed a complaint in the United States District Court for the District of Delaware alleging that we and our Japanese subsidiary engaged in various actions in violation of the Sherman Act and the California Business and Professions Code, including providing secret and discriminatory discounts and rebates and intentionally interfering with prospective business advantages of AMD. AMD's complaint seeks unspecified treble damages, punitive damages, an injunction, and attorneys' fees and costs. Subsequently, AMD's Japanese subsidiary also filed suits in the Tokyo High Court and the Tokyo District Court against our Japanese subsidiary, asserting violations of Japan's Antimonopoly Law and alleging damages in each suit of approximately $55 million, plus various other costs and fees. At least 83 separate class actions have been filed in the U.S. District Courts for the Northern District of California, Southern District of California, District of Idaho, District of Nebraska, District of New Mexico, District of Maine, and the District of Delaware, as well as in various California, Kansas, and Tennessee state courts. These actions generally repeat AMD's allegations and assert various consumer injuries, including that consumers in various states have been injured by paying higher prices for computers containing our microprocessors. All of the federal class actions and the Kansas and Tennessee state court class actions have been or will be consolidated by the Multidistrict Litigation Panel to the District of Delaware. All California class actions have been consolidated to the Superior Court of California in Santa Clara County. We dispute AMD's claims and the class-action claims, and intend to defend the lawsuits vigorously.

We are also subject to certain antitrust regulatory inquiries. In 2001, the European Commission commenced an investigation regarding claims by AMD that we used unfair business practices to persuade clients to buy our microprocessors. The European Commission sent us a Statement of Objections in July 2007 alleging that certain Intel marketing and pricing practices amounted to an abuse of a dominant position that infringed European law. The Statement recognized that such allegations were preliminary, not final, conclusions. We responded to those allegations in January 2008. We intend to contest this matter vigorously in the administrative procedure, which has now begun and, if necessary, in European courts. On February 12, 2008, the European Commission initiated an inspection of documents at our Feldkirchen, Germany offices, and we are cooperating with the investigation.

In June 2005, we received an inquiry from the Korea Fair Trade Commission (KFTC) requesting documents from our Korean subsidiary related to marketing and rebate programs that we entered into with Korean PC manufacturers. In September 2007, the KFTC served us an Examination Report alleging that sales to two customers during parts of 2002–2005 violated Korea's Monopoly Regulation and Fair Trade Act. In December 2007, we submitted our written response to the KFTC. We intend to contest this matter vigorously in the administrative procedure and, if necessary, in Korean courts.

In January 2008, we received a subpoena from the Attorney General of the State of New York requesting documents and information to assist in its investigation of whether there have been any agreements or arrangements establishing or maintaining a monopoly in the sale of microprocessors in violation of federal or New York antitrust laws.

We intend to cooperate with and respond to these investigations as appropriate and we expect that these matters will be acceptably resolved.

Barbara's Sales, et al. v. Intel Corporation, Gateway Inc., Hewlett-Packard Company and HPDirect, Inc.

In June 2002, various plaintiffs filed a lawsuit in the Third Judicial Circuit Court, Madison County, Illinois, against Intel, Gateway Inc., Hewlett-Packard Company, and HPDirect, Inc. alleging that the defendants' advertisements and statements misled the public by suppressing and concealing the alleged material fact that systems containing Intel® Pentium® 4 processors are less powerful and slower than systems containing Intel® Pentium® III processors and a competitor's microprocessors. In July 2004, the court certified against us an Illinois-only class of certain end-use purchasers of certain Pentium 4 processors or computers containing these microprocessors. In January 2005, the court granted a motion filed jointly by the plaintiffs and Intel that stayed the proceedings in the trial court pending discretionary appellate review of the court's class certification order. In July 2006, the Illinois Appellate Court, Fifth District, vacated the trial court's class certification order. The Appellate Court instructed the trial court to reconsider whether California law should apply. However, in August 2006, the Illinois Supreme Court agreed to review the Appellate Court's decision. In November 2007, the Illinois Supreme Court issued its opinion finding in favor of Intel on two issues. First, on the issue of whether Illinois or California law applies to the claims of Illinois residents for goods purchased in Illinois, the Court found that Illinois law applies, rejecting the Appellate Court's finding of a nationwide class based on the application of California law. Second, on the issue of whether any class should be certified in this case at all, the Court held that no class should be certified, reversing the trial court's finding of an Illinois-only class based on Illinois law. The case has been remanded to the trial court.

Transmeta Corporation v. Intel Corporation

In October 2006, Transmeta Corporation filed a patent infringement lawsuit against us in the United States District Court for the District of Delaware alleging that our P6, Pentium 4, Pentium® M, Intel® Core™, and Intel® Core™2 processors infringed ten Transmeta patents, and subsequently filed an amended complaint alleging that our processors infringed an eleventh Transmeta patent, alleged to cover computer architecture and power-efficiency technologies. We filed counterclaims against Transmeta alleging that Transmeta's Crusoe*, Efficeon*, and Efficeon 2* families of microprocessors infringed seven of our patents. Both parties sought damages, treble damages, an injunction, and attorney's fees.

In October 2007, Intel and Transmeta agreed to settle the patent infringement cases between them. The agreement, which was finalized in January 2008, provides us and our customers with a broad license to all Transmeta patents and patent applications now existing or as may be filed during the next ten years, including any patent rights acquired by Transmeta. Transmeta also agreed to transfer certain technology to us and granted us a non-exclusive license to Transmeta's LongRun* and LongRun2* technologies and future improvements. In addition, we will receive a general release from all claims of any type. In exchange, we made an initial payment of $150 million to Transmeta in the first quarter of 2008 and will make five annual payments of $20 million beginning one year from the date of the settlement, for total payments of $250 million. The agreement also includes a covenant by us not to sue Transmeta for certain licensing to third parties. The court dismissed all litigation pending between us and Transmeta.

BIAX Corporation v. Intel Corporation and Analog Devices, Inc.

In May 2005, BIAX Corporation filed a lawsuit against us and Analog Devices, Inc. in the United States District Court for the Eastern District of Texas. The complaint alleged that certain Hyper-Threading-enabled processors, including the Intel® Pentium® and Intel® Xeon® processors supporting Hyper-Threading Technology, and Itanium® and Itanium® 2 processors, infringed four BIAX patents. The complaint sought unspecified damages, injunctive, and other relief, including enhanced damages for alleged willful infringement. In June 2007, the parties finalized a settlement agreement pursuant to which, among other terms, we made a payment to BIAX, and, in exchange, we received a license to BIAX's patent portfolio. In July 2007, the lawsuit was dismissed with prejudice.

Martin Smilow v. Craig R. Barrett et al. & Intel Corporation

On February 13, 2008, Martin Smilow, an Intel stockholder, filed a putative derivative action in the United States District Court for the District of Delaware against members of our Board of Directors. The complaint alleges generally that the Board allowed the company to violate antitrust and other laws, as described in AMD's antitrust lawsuits against us, and that those Board-sanctioned activities have harmed the company. The complaint repeats many of AMD's allegations and references various investigations by the European Community, Korean Fair Trade Commission, and others. We deny the allegations and intend to defend the lawsuit vigorously.

Note 22: Operating Segment and Geographic Information

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 and Solutions Group. In the fourth quarter of 2007, we made organizational changes that resulted in the formation of the NAND Products Group operating segment, which includes the NAND flash memory business that was previously included in the Flash Memory Group operating segment. The Flash Memory Group operating segment includes sales of NOR flash memory products. During the first quarter of 2008, we expect to complete the divestiture of our NOR flash memory assets to Numonyx. 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" for more information on Numonyx. Prior-period amounts have been adjusted retrospectively to reflect other minor reorganizations.

The Chief Operating Decision Maker (CODM), as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131), is our President and Chief Executive Officer (CEO). The CODM allocates resources to and assesses the performance of each operating segment using information about its revenue and operating income (loss) before interest and taxes.

We report the financial results of the following operating segments:

- *Digital Enterprise Group.* Includes microprocessors and related chipsets and motherboards designed for the desktop and enterprise computing market segments; communications infrastructure components such as network processors, communications boards, and embedded processors; wired connectivity devices; and products for network and server storage.
- *Mobility Group.* Includes microprocessors and related chipsets designed for the notebook market segment, wireless connectivity products, and products designed for the ultra-mobile market segment. In the fourth quarter of 2006, we completed the sale of certain assets of our communications and application processor business lines to Marvell. Related to the sale, we entered into a manufacturing and transition services agreement with Marvell. As a result, our sales of application and cellular baseband processors in 2007 were only to Marvell.

The NAND Products Group, Flash Memory Group, Digital Home Group, Digital Health Group, and Software and Solutions Group operating segments do not meet the quantitative thresholds for reportable segments as defined by SFAS No. 131 and are included within the all other category.

We have sales and marketing, manufacturing, finance, and administration groups. Expenses for these groups are generally allocated to the operating segments, and the expenses are included in the operating results reported below. Additionally, in the first quarter of 2007, we started including share-based compensation in the computation of operating income (loss) for each operating segment and adjusted prior results to reflect this change. Revenue for the all other category is primarily related to the sale of NOR flash memory products, NAND flash memory products, and microprocessors and related chipsets by the Digital Home Group. The all other category includes certain corporate-level operating expenses and charges. These expenses and charges include:

- a portion of profit-dependent bonuses and other expenses not allocated to the operating segments;
- results of operations of seed businesses that support our initiatives;
- acquisition-related costs, including amortization and any impairment of acquisition-related intangibles and goodwill;
- charges for purchased IPR&D; and
- amounts included within restructuring and asset impairment charges.

With the exception of goodwill, we do not identify or allocate assets by operating segment, nor does the CODM evaluate operating segments using discrete asset information. Operating segments do not record inter-segment revenue, and, accordingly, there is none to be reported. We do not allocate interest and other income, interest expense, or taxes to operating segments. Although the CODM uses operating income to evaluate the segments, operating costs included in one segment may benefit other segments. Except as discussed above, the accounting policies for segment reporting are the same as for Intel as a whole.

Operating segment net revenue and operating income (loss) for the three years ended December 29, 2007 were as follows:

(In Millions)	2007	2006	2005
Net revenue			
Digital Enterprise Group			
Microprocessor revenue	$ 15,234	$ 14,606	$ 19,412
Chipset, motherboard, and other revenue	5,106	5,270	5,725
	20,340	**19,876**	**25,137**
Mobility Group			
Microprocessor revenue	10,660	9,212	8,704
Chipset and other revenue	4,021	3,097	2,427
	14,681	**12,309**	**11,131**
All other	**3,313**	**3,197**	**2,558**
Total net revenue	**$ 38,334**	**$ 35,382**	**$ 38,826**
Operating income (loss)			
Digital Enterprise Group	$ 5,169	$ 3,510	$ 9,020
Mobility Group	5,606	4,595	5,335
All other	(2,559)	(2,453)	(2,265)
Total operating income	**$ 8,216**	**$ 5,652**	**$ 12,090**

In 2007, one customer accounted for 18% of our net revenue (19% in 2006 and 2005) while another customer accounted for 17% of our net revenue (16% in 2006 and 2005). The majority of the revenue from these customers was from the sale of microprocessors, chipsets, and other components by the Digital Enterprise Group and Mobility Group operating segments.

Geographic revenue information for the three years ended December 29, 2007 is based on the location of the customer. Revenue from unaffiliated customers by geographic region/country was as follows:

(In Millions)	2007	2006	2005
Asia-Pacific			
Taiwan	$ 8,606	$ 7,200	$ 7,225
China	5,295	4,969	5,347
Other Asia-Pacific	5,531	5,308	6,758
	19,432	**17,477**	**19,330**
Americas			
United States	6,015	5,486	5,662
Other Americas	1,700	2,026	1,912
	7,715	**7,512**	**7,574**
Europe	**7,262**	**6,587**	**8,210**
Japan	**3,925**	**3,806**	**3,712**
Total net revenue	**$ 38,334**	**$ 35,382**	**$ 38,826**

Revenue from unaffiliated customers outside the U.S. totaled $32,319 million in 2007 ($29,896 million in 2006 and $33,164 million in 2005).

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

(In Millions)	2007	2006	2005
United States	$ 10,647	$ 11,558	$ 11,211
Israel	2,473	1,183	736
Ireland	2,076	2,860	3,192
Other countries	1,722	2,001	1,972
Total property, plant and equipment, net	**$ 16,918**	**$ 17,602**	**$ 17,111**

Net property, plant and equipment outside the U.S. totaled $6,271 million in 2007 ($6,044 million in 2006 and $5,900 million in 2005).

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders, Intel Corporation

We have audited the accompanying consolidated balance sheets of Intel Corporation as of December 29, 2007 and December 30, 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2007. Our audits also included the financial statement schedule listed in the Index at Part IV, Item 15. These financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intel Corporation at December 29, 2007 and December 30, 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 2, 17 and 18 to the consolidated financial statements, Intel Corporation changed its method of accounting for sabbatical leave as of December 31, 2006, its method of accounting for uncertain tax positions as of December 31, 2006, its method of accounting for its defined benefit pension and other postretirement plans during 2006, and its method of accounting for stock-based compensation as of January 1, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Intel Corporation's internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP

San Jose, California
February 19, 2008

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders, Intel Corporation

We have audited Intel Corporation's internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Intel Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Intel Corporation maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2007 consolidated financial statements of Intel Corporation and our report dated February 19, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP

San Jose, California
February 19, 2008

INTEL CORPORATION
FINANCIAL INFORMATION BY QUARTER (UNAUDITED)

2007 For Quarter Ended (In Millions, Except Per Share Amounts)	**December 29**	**September 29**	**June 30**	**March 31**
Net revenue	$ 10,712	$ 10,090	$ 8,680	$ 8,852
Gross margin	$ 6,226	$ 5,171	$ 4,075	$ 4,432
Net income[1]	$ 2,271	$ 1,791	$ 1,278	$ 1,636
Basic earnings per common share[1]	$ 0.39	$ 0.31	$ 0.22	$ 0.28
Diluted earnings per common share[1]	$ 0.38	$ 0.30	$ 0.22	$ 0.28
Dividends per share				
Declared	$ —	$ 0.225	$ —	$ 0.225
Paid	$ 0.1125	$ 0.1125	$ 0.1125	$ 0.1125
Market price range common stock[2]				
High	$ 27.98	$ 26.33	$ 24.29	$ 22.30
Low	$ 24.37	$ 23.10	$ 19.13	$ 18.86

2006 For Quarter Ended (In Millions, Except Per Share Amounts)	**December 30**	**September 30**	**July 1**	**April 1**
Net revenue	$ 9,694	$ 8,739	$ 8,009	$ 8,940
Gross margin	$ 4,810	$ 4,294	$ 4,171	$ 4,943
Net income	$ 1,501	$ 1,301	$ 885	$ 1,357
Basic earnings per common share	$ 0.26	$ 0.23	$ 0.15	$ 0.23
Diluted earnings per common share	$ 0.26	$ 0.22	$ 0.15	$ 0.23
Dividends per share				
Declared	$ —	$ 0.20	$ —	$ 0.20
Paid	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Market price range common stock[2]				
High	$ 22.33	$ 20.77	$ 20.11	$ 26.47
Low	$ 20.08	$ 17.10	$ 16.86	$ 19.46

[1] *In connection with IRS settlements reached in 2007, we recorded a $326 million tax benefit (including $50 million of accrued interest) in the first quarter of 2007 and a $155 million tax benefit in the second quarter of 2007. For further information, see "Note 17: Taxes" in the Notes to Consolidated Financial Statements. We did not have any significant settlements and related tax benefits in the third and fourth quarters of 2007.*

[2] *Intel's common stock (symbol INTC) trades on The NASDAQ Global Select Market* and is quoted in the* Wall Street Journal *and other newspapers. Intel's common stock also trades on The Swiss Exchange. At December 29, 2007, there were approximately 185,000 registered holders of common stock. All stock prices are closing prices per The NASDAQ Global Select Market.*

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements: See "Index to Consolidated Financial Statements" in Part II, Item 8 of this Form 10-K.

2. Financial Statement Schedule: See "Schedule II—Valuation and Qualifying Accounts" in this section of this Form 10-K.

3. Exhibits: The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Form 10-K.

Intel, the Intel logo, Intel Inside, Celeron, Intel Centrino, Intel Core, Intel Core Duo, Intel Core 2 Duo, Intel Core 2 Quad, Intel Viiv, Intel vPro, Intel Xeon, Intel XScale, Itanium, and Pentium are trademarks of Intel Corporation in the U.S. and other countries.

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

INTEL CORPORATION
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

December 29, 2007, December 30, 2006, and December 31, 2005
(In Millions)

	Balance at Beginning of Year	Additions Charged (Credited) to Expenses	Net Deductions (Recoveries)	Balance at End of Year
Allowance for doubtful receivables[1]				
2007	$ 32	$ (6)	$ (1)	$ 27
2006	$ 64	$ (19)	$ 13	$ 32
2005	$ 43	$ 35	$ 14	$ 64
Valuation allowance for deferred tax assets				
2007	$ 87	$ 46	$ —	$ 133
2006	$ 86	$ 6	$ 5	$ 87
2005	$ 75	$ 11	$ —	$ 86

[1] *Deductions represent uncollectible accounts written off, net of recoveries.*

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
3.1	Intel Corporation Third Restated Certificate of Incorporation of Intel Corporation dated May 17, 2006	8-K	000-06217	3.1	5/22/06	
3.2	Intel Corporation Bylaws, as amended on January 16, 2008	8-K	000-06217	3.1	1/17/08	
4.1	Registration Rights Agreement	10-K	000-06217	4.1	2/27/06	
4.2.1	Indenture for the Registrant's 2.95% Junior Subordinated Convertible Debentures due 2035 issued by Intel Corporation to Citibank N.A., dated as of December 16, 2005 (the "Convertible Note Indenture")	10-K	000-06217	4.2	2/27/06	
4.2.2	Indenture dated as of March 29, 2006 between Intel Corporation and Citibank, N.A. (the "Open-Ended Indenture")	S-3ASR	333-132865	4.4	3/30/06	
4.2.3	First Supplemental Indenture to Convertible Debentures due 2035, dated as of July 25, 2007					X
4.2.4	First Supplemental Indenture to Open-Ended Indenture, dated as of December 3, 2007					X
10.1**	Intel Corporation 1988 Executive Long Term Stock Option Plan, as amended and restated effective July 16, 1997	10-Q	333-45395	10.2	8/11/98	
10.2**	Intel Corporation 1984 Stock Option Plan, as amended and restated effective July 16, 1997	10-Q	333-45395	10.1	8/11/98	
10.3	Intel Corporation 1997 Stock Option Plan, as amended and restated effective July 16, 1997	10-K	000-06217	10.7	3/11/03	
10.4**	Intel Corporation 2004 Equity Incentive Plan, effective May 19, 2004	10-Q	000-06217	10.3	8/2/04	
10.5**	Notice of Grant of Non-Qualified Stock Option under the Intel Corporation 2004 Equity Incentive Plan	10-Q	000-06217	10.7	8/2/04	
10.6**	Standard Terms and Conditions Relating to Non-Qualified Stock Options granted to U.S. employees on and after May 19, 2004 under the Intel Corporation 2004 Equity Incentive Plan	10-Q	000-06217	10.5	8/2/04	
10.7**	Standard International Non-Qualified Stock Option Agreement under the Intel Corporation 2004 Equity Incentive Plan	10-Q	000-06217	10.6	8/2/04	
10.8**	Intel Corporation Non-Employee Director Non-Qualified Stock Option Agreement under the Intel Corporation 2004 Equity Incentive Plan	10-Q	000-06217	10.4	8/2/04	
10.9**	Form of ELTSOP Non-Qualified Stock Option Agreement under the Intel Corporation 2004 Equity Incentive Plan	8-K	000-06217	10.1	10/12/04	
10.10**	Intel Corporation 2004 Equity Incentive Plan, as amended and restated, effective May 18, 2005	8-K	000-06217	10.1	5/20/05	
10.11**	Form of Notice of Grant of Restricted Stock Units	8-K	000-06217	10.5	2/9/06	
10.12**	Form of Intel Corporation Nonqualified Stock Option Agreement under the 2004 Equity Incentive Plan	10-K	000-06217	10.16	2/27/06	
10.13**	Standard Terms and Conditions relating to Restricted Stock Units granted to U.S. employees under the Intel Corporation 2004 Equity Incentive Plan	10-Q	000-06217	10.2	5/8/06	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
10.14**	Standard International Restricted Stock Unit Agreement under the 2004 Equity Incentive Plan	10-Q	000-06217	10.4	5/8/06	
10.15**	Standard Terms and Conditions relating to Non-Qualified Stock Options granted to U.S. employees on and after February 1, 2006 under the Intel Corporation 2004 Equity Incentive Plan (other than grants made under the SOP Plus or ELTSOP programs)	10-Q	000-06217	10.6	5/8/06	
10.16**	Standard Terms and Conditions relating to Restricted Stock Units granted to U.S. employees under the Intel Corporation 2004 Equity Incentive Plan (for grants under the ELTSOP Program)	10-Q	000-06217	10.9	5/8/06	
10.17**	Standard International Restricted Stock Unit Agreement under the 2004 Equity Incentive Plan (for grants under the ELTSOP Program)	10-Q	000-06217	10.11	5/8/06	
10.18**	Terms and Conditions relating to Nonqualified Stock Options granted to U.S. employees on and after February 1, 2006 under the Intel Corporation 2004 Equity Incentive Plan for grants formerly known as ELTSOP Grants	10-Q	000-06217	10.13	5/8/06	
10.19**	Standard International Nonqualified Stock Option Agreement under the 2004 Equity Incentive Plan (for grants after February 1, 2006 under the ELTSOP Program)	10-Q	000-06217	10.15	5/8/06	
10.20**	Intel Corporation 2006 Equity Incentive Plan, as amended and restated, effective May 17, 2006	8-K	000-06217	10.1	5/22/06	
10.21**	Form of Notice of Grant—Restricted Stock Units	8-K	000-06217	10.13	7/6/06	
10.22**	Form of Notice of Grant—Nonqualified Stock Options	8-K	000-06217	10.24	7/6/06	
10.23**	Standard Terms and Conditions relating to Restricted Stock Units granted to U.S. employees on and after May 17, 2006 under the Intel Corporation 2006 Equity Incentive Plan (for grants under the standard program)	8-K	000-06217	10.1	7/6/06	
10.24**	Standard International Restricted Stock Unit Agreement under the 2006 Equity Incentive Plan (for grants under the standard program after May 17, 2006)	8-K	000-06217	10.2	7/6/06	
10.25**	Terms and Conditions relating to Restricted Stock Units granted on and after May 17, 2006 to U.S. employees under the Intel Corporation 2006 Equity Incentive Plan (for grants under the ELTSOP Program)	8-K	000-06217	10.7	7/6/06	
10.26**	International Restricted Stock Unit Agreement under the 2006 Equity Incentive Plan (for grants under the ELTSOP program after May 17, 2006)	8-K	000-06217	10.8	7/6/06	
10.27**	Standard Terms and Conditions relating to Non-Qualified Stock Options granted to U.S. employees on and after May 17, 2006 under the Intel Corporation 2006 Equity Incentive Plan (for grants under the standard program)	8-K	000-06217	10.14	7/6/06	
10.28**	Standard International Nonqualified Stock Option Agreement under the 2006 Equity Incentive Plan (for grants under the standard program after May 17, 2006)	8-K	000-06217	10.15	7/6/06	

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Exhibit	Filing Date	Filed Herewith
10.29**	Terms and Conditions relating to Nonqualified Stock Options granted to U.S. employees on and after May 17, 2006 under the Intel Corporation 2006 Equity Incentive Plan (for grants under the ELTSOP Program)	8-K	000-06217	10.19	7/6/06	
10.30**	International Nonqualified Stock Option Agreement under the 2006 Equity Incentive Plan (for grants after May 17, 2006 under the ELTSOP Program)	8-K	000-06217	10.20	7/6/06	
10.31**	Form of Non-Employee Director Restricted Stock Unit Agreement under the 2006 Equity Incentive Plan (for RSUs granted after May 17, 2006)	8-K	000-06217	10.2	7/14/06	
10.32**	Terms and Conditions Relating to Nonqualified Options Granted to Paul Otellini on January 18, 2007 under the Intel Corporation 2006 Equity Incentive Plan	10-K	000-06217	10.42	2/26/07	
10.33**	Intel Corporation 2006 Equity Incentive Plan As Amended and Restated Effective May 16, 2007	8-K	000-06217	10.1	5/16/07	
10.34**	Intel Corporation 2007 Executive Officer Incentive Plan, Effective as of January 1, 2007	8-K	000-06217	10.2	5/16/07	
10.35**	Intel Corporation Deferral Plan for Outside Directors, effective July 1, 1998	10-K	333-45395	10.6	3/26/99	
10.36**	Intel Corporation Sheltered Employee Retirement Plan Plus, as amended and restated effective January 1, 2006	S-8	333-141905	99.1	4/5/07	
10.37**	First Amendment to the Intel Corporation Sheltered Employee Retirement Plan Plus, executed November 6, 2007					X
10.38**	Second Amendment to the Intel Corporation Sheltered Employee Retirement Plan Plus, executed November 6, 2007					X
10.39**	Form of Indemnification Agreement with Directors and Executive Officers	10-K	000-06217	10.15	2/22/05	
10.40**	Listed Officer Compensation	10-Q	000-06217	10.1	5/3/07	
10.41**	Intel Corporation 2006 Stock Purchase Plan, Effective May 17, 2006	S-8	333-135178	99.1	6/21/06	
10.42**	Summary of Intel Corporation Non-Employee Director Compensation	8-K	000-06217	10.1	7/14/06	
10.43**	Intel Corporation 2006 Deferral Plan for Outside Directors, Effective November 15, 2006	10-K	000-06217	10.41	2/26/07	
10.44	Form of Asset Transfer Agreement By and Between Newco and Intel Corporation	10-Q	000-06217	10.3	8/6/07	
10.45	Master Agreement By and Between STMicroelectronics N.V., Intel Corporation, Redwood Blocker S.A.R.L., and Francisco Partners II (Cayman) L.P., Dated May 22, 2007	10-Q	000-06217	10.4	8/6/07	
10.46	Letter Agreement dated December 22, 2007 extending termination date of the Master Agreement	8-K	000-06217	99.1	12/26/07	
12.1	Statement Setting Forth the Computation of Ratios of Earnings to Fixed Charges					X
21.1	Intel Corporation subsidiaries					X

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File Number	Exhibit	Filing Date	
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm					X
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act)					X
31.2	Certification of Chief Financial Officer and Principal Accounting Officer pursuant to Rule 13a-14(a) of the Exchange Act					X
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer and Principal Accounting Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X

** *Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.*

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTEL CORPORATION
Registrant

By: /s/ STACY J. SMITH

Stacy J. Smith
Vice President, Chief Financial Officer and
Principal Accounting Officer
February 19, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ CRAIG R. BARRETT

Craig R. Barrett
Chairman of the Board and Director
February 19, 2008

/s/ CHARLENE BARSHEFSKY

Charlene Barshefsky
Director
February 19, 2008

/s/ CAROL A. BARTZ

Carol A. Bartz
Director
February 19, 2008

/s/ SUSAN L. DECKER

Susan L. Decker
Director
February 19, 2008

/s/ D. JAMES GUZY

D. James Guzy
Director
February 19, 2008

/s/ REED E. HUNDT

Reed E. Hundt
Director
February 19, 2008

/s/ PAUL S. OTELLINI

Paul S. Otellini
President, Chief Executive Officer, Director and
Principal Executive Officer
February 19, 2008

/s/ JAMES D. PLUMMER

James D. Plummer
Director
February 19, 2008

/s/ DAVID S. POTTRUCK

David S. Pottruck
Director
February 19, 2008

/s/ JANE E. SHAW

Jane E. Shaw
Director
February 19, 2008

/s/ STACY J. SMITH

Stacy J. Smith
Vice President, Chief Financial Officer and
Principal Accounting Officer
February 19, 2008

/s/ JOHN L. THORNTON

John L. Thornton
Director
February 19, 2008

/s/ DAVID B. YOFFIE

David B. Yoffie
Director
February 19, 2008