INTEL CORP
Form 10-Q
November 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2011.

Or

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

For the transition period from ________ to ________

Commission File Number 000-06217

INTEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	94-1672743 (I.R.S. Employer Identification No.)
2200 Mission College Boulevard, Santa Clara, California (Address of principal executive offices)	95054-1549 (Zip Code)

(408) 765-8080

(Registrant s telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

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

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

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

Shares outstanding of the Registrant s common stock:

Class	Outstanding as of October 28, 2011
Common stock, $0.001 par value	5,092 million

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTEL CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

(In Millions, Except Per Share Amounts)	Three Months Ended Oct. 1, 2011	Three Months Ended Sept. 25, 2010	Nine Months Ended Oct. 1, 2011	Nine Months Ended Sept. 25, 2010
Net revenue	**$ 14,233**	**$ 11,102**	**$ 40,112**	**$ 32,166**
Cost of sales	5,215	3,781	15,307	11,081
Gross margin	**9,018**	**7,321**	**24,805**	**21,085**
Research and development	2,140	1,675	6,042	4,905
Marketing, general and administrative	2,017	1,506	5,697	4,604
Amortization of acquisition-related intangibles	76	4	188	11
Operating expenses	**4,233**	**3,185**	**11,927**	**9,520**
Operating income	**4,785**	**4,136**	**12,878**	**11,565**
Gains (losses) on equity method investments, net	(40)	126	(148)	163
Gains (losses) on other equity investments, net	132	(49)	243	76
Interest and other, net	15	38	221	78
Income before taxes	**4,892**	**4,251**	**13,194**	**11,882**
Provision for taxes	1,424	1,296	3,612	3,598
Net income	**$ 3,468**	**$ 2,955**	**$ 9,582**	**$ 8,284**
Basic earnings per common share	**$ 0.67**	**$ 0.53**	**$ 1.80**	**$ 1.49**
Diluted earnings per common share	**$ 0.65**	**$ 0.52**	**$ 1.75**	**$ 1.45**
Cash dividends declared per common share	**$ 0.4200**	**$ 0.3150**	**$ 0.7824**	**$ 0.6300**
Weighted average common shares outstanding:				
Basic	**5,194**	**5,575**	**5,317**	**5,556**
Diluted	**5,340**	**5,694**	**5,466**	**5,695**

See accompanying notes.

INTEL CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions)	0000000 Oct. 1, 2011	0000000 Dec. 25, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 7,057	$ 5,498
Short-term investments	3,876	11,294
Trading assets	4,265	5,093
Accounts receivable, net	3,821	2,867
Inventories	3,959	3,757
Deferred tax assets	2,011	1,488
Other current assets	1,709	1,614
Total current assets	**26,698**	**31,611**
Property, plant and equipment, net of accumulated depreciation of $34,660 ($32,582 as of December 25, 2010)	**22,157**	**17,899**
Marketable equity securities	**516**	**1,008**
Other long-term investments	**858**	**3,026**
Goodwill	**9,138**	**4,531**
Identified intangible assets, net	**6,445**	**860**
Other long-term assets	**4,739**	**4,251**
Total assets	**$ 70,551**	**$ 63,186**
Liabilities and stockholders equity		
Current liabilities:		
Short-term debt	$ 66	$ 38
Accounts payable	2,999	2,290
Accrued compensation and benefits	2,270	2,888
Accrued advertising	1,215	1,007
Deferred income	1,917	747
Other accrued liabilities	3,442	2,357
Total current liabilities	**11,909**	**9,327**
Long-term income taxes payable	**192**	**190**
Long-term debt	**7,076**	**2,077**
Long-term deferred tax liabilities	**2,762**	**926**
Other long-term liabilities	**2,495**	**1,236**
Contingencies (Note 26)		
Stockholders equity:		
Preferred stock		
Common stock and capital in excess of par value, 5,118 shares issued and outstanding (5,581 issued and 5,511 outstanding as of December 25, 2010)	16,247	16,178
Accumulated other comprehensive income (loss)	(32)	333
Retained earnings	29,902	32,919
Total stockholders equity	**46,117**	**49,430**

Total liabilities and stockholders equity	**$ 70,551**	**$ 63,186**

See accompanying notes.

INTEL CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended	
(In Millions)	**Oct. 1, 2011**	**Sept. 25, 2010**
Cash and cash equivalents, beginning of period	**$ 5,498**	**$ 3,987**
Cash flows provided by (used for) operating activities:		
Net income	9,582	8,284
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,808	3,252
Share-based compensation	812	704
Net loss on retirement of assets	78	26
Excess tax benefit from share-based payment arrangements	(28)	(63)
Amortization of intangibles	667	180
(Gains) losses on equity method investments, net	148	(163)
(Gains) losses on other equity investments, net	(243)	(76)
(Gains) losses on divestitures	(164)	
Deferred taxes	589	(36)
Changes in assets and liabilities:		
Accounts receivable	(856)	(628)
Inventories	(110)	(479)
Accounts payable	645	20
Accrued compensation and benefits	(651)	(205)
Income taxes payable and receivable	194	179
Other assets and liabilities	(138)	147
Total adjustments	4,751	2,858
Net cash provided by operating activities	**14,333**	**11,142**
Cash flows provided by (used for) investing activities:		
Additions to property, plant and equipment	(7,920)	(3,338)
Acquisitions, net of cash acquired	(8,477)	(70)
Purchases of available-for-sale investments	(7,426)	(11,835)
Sales of available-for-sale investments	9,052	430
Maturities of available-for-sale investments	8,645	8,363
Purchases of trading assets	(6,795)	(6,761)
Maturities and sales of trading assets	7,688	5,949
Origination of loans receivable	(206)	(421)
Investments in non-marketable equity investments	(569)	(242)
Return of equity method investments	172	151
Proceeds from divestitures	50	
Other investing	252	207
Net cash used for investing activities	**(5,534)**	**(7,567)**
Cash flows provided by (used for) financing activities:		
Increase (decrease) in short-term debt, net	28	87
Proceeds from government grants	56	79
Excess tax benefit from share-based payment arrangements	28	63
Issuance of long-term debt	4,962	
Proceeds from sales of shares through employee equity incentive plans	925	535

Repurchase of common stock	(10,187)	(222)
Payment of dividends to stockholders	(3,057)	(2,624)
Other financing	(5)	37
Net cash used for financing activities	**(7,250)**	**(2,045)**
Effect of exchange rate fluctuations on cash and cash equivalents	**10**	
Net increase (decrease) in cash and cash equivalents	**1,559**	**1,530**
Cash and cash equivalents, end of period	**$ 7,057**	**$ 5,517**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes, net of refunds	$ 2,770	$ 3,493

See accompanying notes.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited

Note 1: Basis of Presentation

We prepared our interim consolidated condensed financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles (GAAP), consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 25, 2010.

We have a 52- or 53-week fiscal year that ends on the last Saturday in December. Fiscal year 2011 is a 53-week fiscal year, and the first quarter of 2011 was a 14-week quarter. Fiscal year 2010 was a 52-week fiscal year, and the first quarter of 2010 was a 13-week quarter.

In the first quarter of 2011, we completed the acquisition of McAfee, Inc. For further information, see Note 15: Acquisitions. Certain of the operations acquired from McAfee have a functional currency other than the U.S. dollar. As a result, translation adjustments have been recorded through accumulated other comprehensive income (loss) beginning in 2011.

We have made estimates and judgments affecting the amounts reported in our consolidated condensed financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates. The accounting estimates that require our most significant, difficult, and subjective judgments include:

- the valuation of non-marketable equity investments and the determination of other-than-temporary impairments;
- the assessment of recoverability of long-lived assets (property, plant and equipment; goodwill; and identified intangibles);
- the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions);
- the valuation of inventory; and
- the recognition and measurement of loss contingencies.

The interim financial information is unaudited, but reflects all normal adjustments that are, in our opinion, necessary to provide a fair statement of results for the interim periods presented. This interim information should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 25, 2010.

Note 2: Accounting Policies

We have adopted additional revenue recognition accounting policies as they apply to the acquired McAfee business. Revenue from license agreements with our McAfee business generally includes service and support agreements for which the related revenue is deferred and recognized ratably over the performance period. Revenue derived from online subscription products is deferred and recognized ratably over the performance period. Professional services revenue is recognized as services are performed or if required, upon customer acceptance. For arrangements with multiple elements, including software licenses, maintenance, and/or services, revenue is allocated across the separately identified deliverables and may be recognized or deferred. When vendor-specific objective evidence (VSOE) does not exist for undelivered elements such as maintenance and support, the entire arrangement fee is recognized ratably over the performance period. Direct costs, such as costs related to revenue-sharing and royalty arrangements associated with license arrangements, as well as component costs associated with product revenue, are deferred and amortized over the same period that the related revenue is recognized.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 3: Accounting Changes

In the first quarter of 2011, we adopted new standards for revenue recognition with multiple deliverables. These new standards change the determination of whether the individual deliverables included in a multiple-element arrangement may be treated as separate units for accounting purposes. Additionally, these new standards modify the method by which revenue is allocated to the separately identified deliverables. The adoption of these new standards did not have a significant impact on our consolidated condensed financial statements.

In the first quarter of 2011, we adopted new standards that remove certain tangible products and associated software from the scope of the software revenue recognition guidance. The adoption of these new standards did not have a significant impact on our consolidated condensed financial statements.

Note 4: Recent Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued amended standards to achieve a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards. For assets and liabilities categorized as Level 3 and recognized at fair value, these amended standards require disclosure of quantitative information about unobservable inputs, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. In addition, these amended standards require that we disclose the level in the fair value hierarchy for financial instruments disclosed at fair value but not recorded at fair value. These new standards are effective for us beginning in the first quarter of 2012; early adoption of these standards is prohibited. We do not expect these new standards to significantly impact our consolidated condensed financial statements.

In June 2011, the FASB issued amended standards to increase the prominence of items reported in other comprehensive income. These amendments eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and require that all changes in stockholders equity except investments by, and distributions to, owners be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, these amendments require that we present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. These new standards are effective for us beginning in the first quarter of 2012 and are to be applied retrospectively. These amended standards will impact the presentation of other comprehensive income but will not impact our financial position or results of operations. We do not expect these new standards to significantly impact our consolidated condensed financial statements.

In September 2011, the FASB issued amended standards to simplify how entities test goodwill for impairment. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. For reporting units in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform further goodwill impairment testing as outlined in the previously issued standards. These amended standards are effective for us beginning in the first quarter of 2012; however, we plan to early adopt in the fourth quarter. We do not expect these new standards to significantly impact our consolidated condensed financial statements.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 5: Fair Value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use when pricing the asset or liability. Our financial assets and liabilities are measured and recorded at fair value, except for equity method investments, cost method investments, cost method loans receivable, and most of our liabilities.

Fair Value Hierarchy

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

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

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

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

Marketable Debt Instruments

Marketable debt instruments include instruments such as commercial paper, corporate bonds, government bonds, bank deposits, asset-backed securities, municipal bonds, and money market fund deposits. When we use observable market prices for identical securities that are traded in less active markets, we classify our marketable debt instruments as Level 2. When observable market prices for identical securities are not available, we price our marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs. We corroborate non-binding market consensus prices with observable market data using statistical models when observable market data exists. The discounted cash flow model uses observable market inputs, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings.

Our marketable debt instruments that are classified as Level 3 are classified as such due to the lack of observable market data to corroborate either the non-binding market consensus prices or the non-binding broker quotes. When observable market data is not available, we corroborate non-binding market consensus prices and non-binding broker quotes using available unobservable data.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

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

Assets and liabilities measured and recorded at fair value on a recurring basis consisted of the following types of instruments as of October 1, 2011 and December 25, 2010:

	00000	00000	00000	00000	00000	00000	00000	00000
	October 1, 2011				December 25, 2010			
	Fair Value Measured and Recorded at Reporting Date Using				Fair Value Measured and Recorded at Reporting Date Using			
(In Millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Cash equivalents:								
Commercial paper	$	$ 3,457	$	$ 3,457	$	$ 2,600	$	$ 2,600
Government bonds	1,650			1,650	1,279	505		1,784
Bank deposits		499		499		560		560
Money market fund deposits	463			463	34			34
Short-term investments:								
Commercial paper		2,403		2,403		2,712		2,712
Corporate bonds	144	525	7	676	121	1,378	1	1,500
Government bonds	82	373		455	4,890	1,320		6,210
Bank deposits		342		342		858		858
Asset-backed securities							14	14
Trading assets:								
Government bonds	883	1,683		2,566	311	2,115		2,426
Corporate bonds	201	540		741	199	916		1,115
Commercial paper		404		404		488		488
Municipal bonds		288		288		375		375
Asset-backed securities			130	130			190	190
Bank deposits		89		89		108		108
Money market fund deposits	41			41	3			3
Marketable equity securities	6			6	388			388
Other current assets:								
Derivative assets		224		224		330		330
Loans receivable		34		34				
Marketable equity securities	448	68		516	785	223		1,008
Other long-term investments:								
Corporate bonds	34	340	59	433	104	601	50	755
Government bonds		300		300	83	2,002		2,085
Bank deposits		75		75		133		133
Asset-backed securities			50	50			53	53
Other long-term assets:								
Loans receivable		745		745		642		642
Derivative assets		20	30	50		19	31	50
Total assets measured and recorded at fair value	**$ 3,952**	**$ 12,409**	**$ 276**	**$ 16,637**	**$ 8,197**	**$ 17,885**	**$ 339**	**$ 26,421**
Liabilities								
Other accrued liabilities:								
Derivative liabilities	$	$ 279	$ 11	$ 290	$	$ 201	$ 7	$ 208
Long-term debt			129	129			128	128

Other long-term liabilities:								
Derivative liabilities		32		32		47		47
Total liabilities measured and recorded at fair value	**$**	**$ 311**	**$ 140**	**$ 451**	**$**	**$ 248**	**$ 135**	**$ 383**

Government bonds include bonds issued or deemed to be guaranteed by government entities. Government bonds include instruments such as non-U.S. government bonds, U.S. Treasury securities, U.S. agency securities, and Federal Deposit Insurance Corporation (FDIC)-insured corporate bonds.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

The tables below present reconciliations for all assets and liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended October 1, 2011 and for the twelve months ended December 25, 2010:

	Fair Value Measured and Recorded Using Significant Unobservable Inputs (Level 3)					
(In Millions)	**Corporate Bonds**	**Asset-Backed Securities**	**Derivative Assets**	**Derivative Liabilities**	**Long-term Debt**	**Total Gains (Losses)**
Balance as of December 25, 2010	**$ 51**	**$ 257**	**$ 31**	**$ (7)**	**$ (128)**	
Total gains or losses (realized and unrealized):						
Included in earnings	(2)	(2)	(1)	(4)	(1)	(10)
Included in other comprehensive income (loss)	8	(3)				5
Purchases	13	12	3			
Settlements and maturities	(4)	(84)				
Transfers out of Level 3			(3)			
Balance as of October 1, 2011	**$ 66**	**$ 180**	**$ 30**	**$ (11)**	**$ (129)**	
Changes in unrealized gains or losses included in earnings related to assets and liabilities still held as of October 1, 2011	$ (2)	$ (2)	$ (1)	$ (4)	$ (1)	$ (10)

	Fair Value Measured and Recorded Using Significant Unobservable Inputs (Level 3)					
(In Millions)	**Corporate Bonds**	**Asset-Backed Securities**	**Derivative Assets**	**Derivative Liabilities**	**Long-term Debt**	**Total Gains (Losses)**
Balance as of December 26, 2009	**$ 369**	**$ 754**	**$ 31**	**$ (65)**	**$ (123)**	
Total gains or losses (realized and unrealized):						
Included in earnings	(2)	6	(3)	(2)	(5)	(6)
Included in other comprehensive income (loss)	4	9				13
Purchases	6		7			
Sales	(44)	(28)	(4)			
Settlements and maturities	(75)	(484)				
Transfers out of Level 3	(207)			60		
Balance as of December 25, 2010	**$ 51**	**$ 257**	**$ 31**	**$ (7)**	**$ (128)**	
Changes in unrealized gains or losses included in earnings related to assets and liabilities still held as of December 25, 2010	$	$ 6	$ (4)	$ (1)	$ (5)	$ (4)

For all periods presented, gains and losses (realized and unrealized) included in earnings were primarily reported outside of operating income. During 2010, we transferred corporate bonds from Level 3 to Level 2 due to improved availability of observable market data and non-binding market consensus prices to value or corroborate the value of these instruments. Our policy is to reflect transfers in and transfers out at the beginning of the quarter in which a change in circumstances resulted in the transfer.

Fair Value Option for Financial Assets/Liabilities

We elected the fair value option for loans made to third parties when the interest rate or foreign exchange rate risk was hedged at inception with a related derivative instrument. As of October 1, 2011, the fair value of our loans receivable for which we elected the fair value option did not significantly differ from the contractual principal balance based on the contractual currency. These loans receivable are classified within other long-term assets and other current assets. Fair value is determined using a discounted cash flow model with all significant inputs derived from or

corroborated with observable market data. Gains and losses from changes in fair value on the loans receivable and related derivative instruments, as well as interest income, are recorded in interest and other, net. During the three and nine months ended October 1, 2011, changes in the fair value of our loans receivable were largely offset by changes in the related derivative instruments, resulting in an insignificant net impact on our consolidated condensed statements of income. Gains and losses attributable to changes in credit risk are determined using observable credit default spreads for the issuer or comparable companies and were insignificant during the three and nine months ended October 1, 2011. We did not elect the fair value option for loans when the interest rate or foreign exchange rate risk was not hedged at inception with a related derivative instrument.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

We elected this fair value option for the bonds issued in 2007 by the Industrial Development Authority of the City of Chandler, Arizona (2007 Arizona bonds). In connection with the 2007 Arizona bonds, we entered into a total return swap agreement that effectively converts the fixed-rate obligation on the bonds to a floating U.S.-dollar LIBOR-based rate. As a result, changes in the fair value of this debt are largely offset by changes in the fair value of the total return swap agreement, without the need to apply hedge accounting provisions. The 2007 Arizona bonds are included in long-term debt. As of October 1, 2011 and December 25, 2010, no other instruments were similar to the 2007 Arizona bonds for which we elected fair value treatment.

As of October 1, 2011, the fair value of the 2007 Arizona bonds did not significantly differ from the contractual principal balance. The fair value of the 2007 Arizona bonds was determined using inputs that are observable in the market or that can be derived from or corroborated with observable market data, as well as unobservable inputs that were significant to the fair value. Gains and losses on the 2007 Arizona bonds and the related total return swap are recorded in interest and other, net. We capitalize interest associated with the 2007 Arizona bonds. We add capitalized interest to the cost of qualified assets and amortize it over the estimated useful lives of the assets.

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

Our non-marketable equity investments and non-financial assets, such as intangible assets and property, plant and equipment, are recorded at fair value only if an impairment charge is recognized. The following table presents the financial instruments and non-financial assets that were measured and recorded at fair value on a non-recurring basis during the nine months ended October 1, 2011, and the gains (losses) recorded during the three and nine months ended October 1, 2011 on those assets:

(In Millions)	Net Carrying Value as of Oct. 1, 2011	Fair Value Measured and Recorded Using Leve l	Level 2	Level 3	Total Gains (Losses) for Three Months Ended Oct. 1, 2011	Total Gains (Losses) for Nine Months Ended Oct. 1, 2011
Non-marketable equity investments	$ 53	$	$	$ 53	$ (12)	$ (33)
Property, plant and equipment	$	$	$	$	$	$ (10)
Total gains (losses) for assets held as of October 1, 2011					**$ (12)**	**$ (43)**
Gains (losses) for non-marketable equity investments no longer held					$	$ (1)
Gains (losses) for property, plant and equipment no longer held					$ (23)	$ (68)
Total gains (losses) for recorded non-recurring measurement					**$ (35)**	**$ (112)**

The following table presents the financial instruments and non-financial assets that were measured and recorded at fair value on a non-recurring basis during the nine months ended September 25, 2010, and the gains (losses) recorded during the three and nine months ended September 25, 2010 on those assets:

(In Millions)	Net Carrying Value as of	Fair Value Measured and Recorded Using	Total Gains (Losses) for Three Months	Total Gains (Losses) for Nine Months

	Sept. 25, 2010	Leve l	Level 2	Level 3	Ended Sept. 25, 2010	Ended Sept. 25, 2010
Non-marketable equity investments	$ 123	$	$	$ 125	$ (32)	$ (94)
Total gains (losses) for assets held as of September 25, 2010					$ (32)	$ (94)
Gains (losses) for non-marketable equity investments no longer held					$	$ (1)
Gains (losses) for property, plant and equipment no longer held					$ (9)	$ (49)
Total gains (losses) for recorded non-recurring measurement					**$ (41)**	**$ (144)**

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

In the preceding tables, the carrying value of our impaired non-marketable equity investments at the end of the period may not equal our fair value measurement at the time of impairment due to the subsequent recognition of equity method adjustments. In addition, the carrying value of our impaired property, plant and equipment at the end of the period may not equal our fair value measurement at the time of impairment due to the subsequent recognition of depreciation expense.

A portion of our non-marketable equity investments were measured and recorded at fair value in the first nine months of 2011 and 2010 due to events or circumstances that significantly impacted the fair value of those investments, resulting in other-than-temporary impairment charges. We classified these measurements as Level 3, as we used unobservable inputs to the valuation methodologies that were significant to the fair value measurements, and the valuations required management judgment due to the absence of quoted market prices. We determine the fair value of our non-marketable equity investments using the market and income approaches. The market approach includes the use of financial metrics and ratios of comparable public companies. The selection of comparable companies requires management judgment and is based on a number of factors, including comparable companies sizes, growth rates, industries, development stages, and other relevant factors. The income approach includes the use of a discounted cash flow model, which requires the following significant estimates for the investee: revenue, costs, and discount rates based on the risk profile of comparable companies. Estimates of revenues and costs are developed using historical data and available market data. The valuation of these non-marketable equity investments also takes into account variables such as conditions reflected in the capital markets, recent financing activities by the investees, the investees capital structure, the terms of the investees issued interests, and the lack of marketability of the investments.

Additionally, certain of our property, plant and equipment was measured and recorded at fair value during the first nine months of 2011 and 2010 due to events or circumstances we identified that indicated that the carrying value of the assets or the asset grouping was not recoverable, resulting in impairment charges. Most of these asset impairments related to manufacturing assets.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

We measure the fair value of our non-marketable equity investments, marketable equity method investment, debt carried at amortized cost, and cost method loans receivable quarterly for disclosure purposes; however, they are recorded at fair value only when an impairment charge is recognized. The carrying amounts and fair values of financial instruments not recorded at fair value on a recurring basis as of October 1, 2011 and December 25, 2010 were as follows:

	0000000	0000000	0000000	0000000
	October 1, 2011		**December 25, 2010**	
(In Millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Non-marketable equity investments	$ 2,795	$ 5,588	$ 2,633	$ 5,144
Marketable equity method investment	$ 37	$ 73	$ 31	$ 167
Loans receivable	$ 258	$ 258	$ 208	$ 208
Long-term debt	$ 6,947	$ 7,533	$ 1,949	$ 2,283

As of October 1, 2011 and December 25, 2010, the unrealized loss position of our non-marketable equity investments was not significant.

Our marketable equity method investment is our ownership interest in SMART Technologies, Inc. The fair value of our ownership interest in SMART was based on the quoted closing stock price as of October 1, 2011 and December 25, 2010.

The carrying amount and fair value of loans receivable exclude loans measured and recorded at a fair value of $779 million as of October 1, 2011 ($642 million as of December 25, 2010). The carrying amount and fair value of long-term debt exclude long-term debt measured and recorded at a fair value of $129 million as of October 1, 2011 ($128 million as of December 25, 2010).

The fair value of our loans receivable is determined using a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. The credit quality of our loans receivable remains high, with credit ratings of BBB+/A2 or better as of October 1, 2011. The fair value of our long-term debt is determined using third party market prices and discounted cash flow models that take into consideration variables such as credit-rating changes and interest rate changes.

In addition to the financial instruments in the table above, we incurred a liability as result of entering into a long-term patent cross-license agreement with NVIDIA Corporation in January 2011. We agreed to make payments to NVIDIA over six years. For further information on the payment terms and recognition of licensed technology intangible assets, see Note 18: Identified Intangible Assets. As of October 1, 2011, the carrying amount of the liability arising from the agreement was $1.2 billion and is classified within other accrued liabilities and other long-term liabilities, as applicable. The fair value of the liability arising from the NVIDIA cross-license agreement approximates the carrying amount. The fair value is determined using a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 6: Trading Assets

Trading assets as of October 1, 2011 and December 25, 2010 were as follows:

(In Millions)	Oct. 1, 2011	Dec. 25 2010
Marketable debt instruments	$ 4,259	$ 4,705
Marketable equity securities	6	388
Total trading assets	**$ 4,265**	**$ 5,093**

Net losses on marketable debt instruments classified as trading assets still held at the reporting date were $89 million in the third quarter of 2011 and $37 million in the first nine months of 2011 (net gains of $154 million in the third quarter of 2010 and net losses of $11 million in the first nine months of 2010). Net gains on the related derivatives were $81 million in the third quarter of 2011 and $42 million in the first nine months of 2011 (net losses of $130 million in the third quarter of 2010 and net gains of $4 million in the first nine months of 2010).

Net losses on marketable equity securities classified as trading assets still held at the reporting date, excluding the impacts of the related derivatives, were insignificant in the third quarter of 2011 and in the first nine months of 2011 (net losses of $129 million in the third quarter of 2010 and $91 million in the first nine months of 2010).

In 2010, we sold our ownership interest in Numonyx B.V. to Micron Technology, Inc. The Micron common stock we received in the transaction was classified as marketable equity securities within trading assets. During the second quarter of 2011, we sold our remaining shares in Micron.

Note 7: Available-for-Sale Investments

Available-for-sale investments as of October 1, 2011 and December 25, 2010 were as follows:

	October 1, 2011				December 25, 2010			
(In Millions)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$ 5,864	$	$ (4)	$ 5,860	$ 5,312	$	$	$ 5,312
Government bonds	2,407		(2)	2,405	10,075	9	(5)	10,079
Corporate bonds	1,100	14	(5)	1,109	2,250	9	(4)	2,255
Bank deposits	916			916	1,550	1		1,551
Marketable equity securities	200	319	(3)	516	380	629	(1)	1,008
Money market fund deposits	463			463	34			34
Asset-backed securities	63		(13)	50	76		(9)	67
Total available-for-sale investments	**$ 11,013**	**$ 333**	**$ (27)**	**$ 11,319**	**$ 19,677**	**$ 648**	**$ (19)**	**$ 20,306**

In the preceding table, government bonds include bonds issued or deemed to be guaranteed by government entities. Government bonds include instruments such as U.S. Treasury securities, non-U.S. government bonds, U.S. agency securities, and Federal Deposit Insurance Corporation (FDIC)-insured corporate bonds as of October 1, 2011 and December 25, 2010.

The amortized cost and fair value of available-for-sale debt investments as of October 1, 2011, by contractual maturity, were as follows:

(In Millions)	Cost	Fair Value
Due in 1 year or less	$ 9,487	$ 9,483
Due in 1 2 years	512	515
Due in 2 5 years	284	289
Due after 5 years	4	3
Instruments not due at a single maturity date	526	513
Total	**$ 10,813**	**$ 10,803**

Instruments not due at a single maturity date in the table above includes asset-backed securities and money market fund deposits.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

We sold available-for-sale investments for proceeds of $298 million in the third quarter of 2011 and $9.1 billion in the first nine months of 2011 ($93 million in the third quarter of 2010 and $399 million in the first nine months of 2010). Substantially all of the proceeds in the first nine months of 2011 were from debt investments that were primarily used to fund our acquisition of McAfee. The gross realized gains on sales of available-for-sale investments were $186 million in the third quarter of 2011 and $251 million in the first nine months of 2011 ($33 million in the third quarter of 2010 and $112 million in the first nine months of 2010) and were primarily related to our sales of marketable equity securities. We determine the cost of an investment sold on an average cost basis at the individual security level.

The before-tax net unrealized holding gains (losses) on available-for-sale investments that have been included in other comprehensive income (loss) and the before-tax net gains (losses) reclassified from accumulated other comprehensive income (loss) into earnings were as follows:

	Three Months Ended		Nine Months Ended	
(In Millions)	**Oct. 1, 2011**	**Sept. 25, 2010**	**Oct. 1, 2011**	**Sept. 25, 2010**
Net unrealized holding gains (losses) included in other comprehensive income (loss)	$ (47)	$ 231	$ (23)	$ 365
Net gains (losses) reclassified from accumulated other comprehensive income (loss) into earnings	$ 203	$ 16	$ 291	$ 90

Note 8: Inventories

Inventories at the end of each period were as follows:

(In Millions)	**Oct. 1, 2011**	**Dec. 25, 2010**
Raw materials	$ 614	$ 471
Work in process	1,494	1,887
Finished goods	1,851	1,399
Total inventories	**$ 3,959**	**$ 3,757**

Note 9: Derivative Financial Instruments

Our primary objective for holding derivative financial instruments is to manage currency exchange rate risk and interest rate risk, and, to a lesser extent, equity market risk and commodity price risk. We currently do not hold derivative instruments for the purpose of managing credit risk since we limit the amount of credit exposure to any one counterparty and generally enter into derivative transactions with high-credit-quality counterparties. We also enter into master netting arrangements with counterparties when possible to mitigate credit risk in derivative transactions. A master netting arrangement may allow counterparties to net settle amounts owed to each other as a result of multiple, separate derivative transactions. For presentation on our consolidated condensed balance sheets, we do not offset fair value amounts recognized for derivative instruments under master netting arrangements.

Currency Exchange Rate Risk

We are exposed to currency exchange rate risk and generally hedge our exposures with currency forward contracts, currency options, or currency interest rate swaps. Substantially all of our revenue is transacted in U.S. dollars. However, a significant amount of our operating expenditures and capital purchases are incurred in or exposed to other currencies, primarily the Japanese yen, the euro, and the Israeli shekel. We have established balance sheet and forecasted transaction currency risk management programs to protect against fluctuations in fair value and the volatility of future cash flows caused by changes in exchange rates. Our non-U.S.-dollar-denominated investments in debt instruments and loans receivable are generally hedged with offsetting currency forward contracts or currency interest rate swaps. These programs reduce, but do

not 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. These instruments generally mature within 12 months. All of our currency forward contracts are settled at maturity involving one cash-payment exchange. 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 in the same line item on the consolidated condensed statements of income as the impact of the hedged transaction.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

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

Interest Rate Risk

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

Our interest rate risk management programs include:

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

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

Equity Market Risk

Our marketable investments include marketable equity securities and equity derivative instruments. To the extent that our marketable equity securities have strategic value, we typically do not attempt to reduce or eliminate our equity market exposure through hedging activities. We may enter into transactions to reduce or eliminate the equity market risks for our investments in strategic equity derivative instruments. For securities that we no longer consider strategic, we evaluate legal, market, and economic factors in our decision on the timing of disposal and whether it is possible and appropriate to hedge the equity market risk. Our equity market risk management program includes equity derivatives without hedge accounting designation that utilize warrants, equity options, or other equity derivatives. We recognize changes in the fair value of such derivatives in gains (losses) on other equity investments, net. We also utilize total return swaps to offset changes in liabilities related to the equity market risks of certain deferred compensation arrangements. Gains and losses from changes in fair value of these total return swaps are generally offset by the gains and losses on the related liabilities, which are both recorded in cost of sales and operating expenses.

In the second quarter of 2010, we sold our ownership interest in Numonyx to Micron for consideration consisting of shares of Micron. We also entered into equity option transactions that economically hedged a portion of the ownership interest in Micron that we acquired. In the second quarter of 2011, we sold our remaining ownership interest in Micron and the related equity options matured.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Commodity Price Risk

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

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

Volume of Derivative Activity

Total gross notional amounts for outstanding derivatives (recorded at fair value) were as follows:

(In Millions)	Oct. 1, 2011	Dec. 25, 2010	Sept. 25, 2010
Currency forwards	$ 9,902	$ 8,502	$ 7,272
Interest rate swaps	2,001	2,166	2,208
Currency interest rate swaps	1,870	2,259	2,189
Embedded debt derivatives	3,600	3,600	3,600
Total return swaps	731	627	550
Equity options	31	496	501
Currency options		94	94
Other	136	66	65
Total	**$ 18,271**	**$ 17,810**	**$ 16,479**

The gross notional amounts for currency forwards, currency interest rate swaps, and currency options (presented by currency) were as follows:

(In Millions)	Oct. 1, 2011	Dec. 25, 2010	Sept. 25, 2010
Euro	$ 3,958	$ 4,445	$ 4,122
Japanese yen	3,464	3,440	2,954
Israeli shekel	1,987	1,191	845
Chinese yuan	606	347	289
Malaysian ringgit	549	382	278
British pound sterling	371	424	430
Other	837	626	637
Total	**$ 11,772**	**$ 10,855**	**$ 9,555**

Credit-Risk-Related Contingent Features

As of October 1, 2011 and December 25, 2010, we did not have any derivative instruments that contain credit-risk-related contingent features, such as provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Fair Values of Derivative Instruments in the Consolidated Condensed Balance Sheets

The fair values of our derivative instruments as of October 1, 2011 and December 25, 2010 were as follows:

	Current	Current	Current	Current	Current	Current	Current	Current
	Oct. 1, 2011				**Dec. 25, 2010**			
(In Millions)	**Other Current Assets**	**Other Long-Term Assets**	**Other Accrued Liabilities**	**Other Long-Term Liabilities**	**Other Current Assets**	**Other Long-Term Assets**	**Other Accrued Liabilities**	**Other Long-Term Liabilities**
Derivatives designated as hedging instruments								
Currency forwards	$ 124	$ 2	$ 124	$ 10	$ 120	$ 3	$ 43	$ 3
Other	1				2			
Total derivatives designated as hedging instruments	**$ 125**	**$ 2**	**$ 124**	**$ 10**	**$ 122**	**$ 3**	**$ 43**	**$ 3**
Derivatives not designated as hedging instruments								
Currency forwards	$ 69	$	$ 46	$	$ 35	$	$ 14	$
Interest rate swaps	2		77		2		96	
Currency interest rate swaps	28	18	33	17	64	17	47	13
Embedded debt derivatives				5				31
Total return swaps		6			41	6		
Equity options		1	10		65	5	7	
Other		23			1	19	1	
Total derivatives not designated as hedging instruments	**$ 99**	**$ 48**	**$ 166**	**$ 22**	**$ 208**	**$ 47**	**$ 165**	**$ 44**
Total derivatives	**$ 224**	**$ 50**	**$ 290**	**$ 32**	**$ 330**	**$ 50**	**$ 208**	**$ 47**

Derivatives in Cash Flow Hedging Relationships

The before-tax effects of derivative instruments in cash flow hedging relationships for the three and nine months ended October 1, 2011 and September 25, 2010 were as follows:

	YTD 2011	YTD 2011	YTD 2011	YTD 2011	YTD 2011
	Gains (Losses) Recognized in OCI on Derivatives (Effective Portion)		**Gains (Losses) Reclassified from Accumulated OCI Into Income by Derivative Instrument Type (Effective Portion)**		
(In Millions)	**Q3 2011**	**Q3 2010**	**Location**	**Q3 2011**	**Q3 2010**
Currency forwards	$ (101)	$ 184	Cost of sales	$ 38	$ 3
			Research and development	8	4
			Marketing, general and administrative	8	(4)

Other		(2)	Cost of sales		1
Total	**$ (101)**	**$ 182**		**$ 54**	**$ 4**

	YTD20111	YTD20111	YTD20111	YTD20111	YTD20111
	Gains (Losses) Recognized in OCI on Derivatives (Effective Portion)		**Gains (Losses) Reclassified from Accumulated OCI into Income by Derivative Instrument Type (Effective Portion)**		
(In Millions)	**YTD 2011**	**YTD 2010**	**Location**	**YTD 2011**	**YTD 2010**
Currency forwards	$ 155	$ 6	Cost of sales	$ 114	$ 32
			Research and development	31	21
			Marketing, general and administrative	25	2
Other	2	1	Cost of sales	2	(2)
Total	**$ 157**	**$ 7**		**$ 172**	**$ 53**

Gains and losses on derivative instruments in cash flow hedging relationships related to hedge ineffectiveness and amounts excluded from effectiveness testing were insignificant during all periods presented in the preceding tables. We estimate that we will reclassify approximately $27 million (before taxes) of net derivative gains included in other accumulated comprehensive income (loss) into earnings within the next 12 months. For all periods presented, there was an insignificant impact on results of operations from discontinued cash flow hedges as a result of forecasted transactions that did not occur.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS   Unaudited (Continued)

Derivatives Not Designated as Hedging Instruments

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

	$(114)	$(114)	$(114)	$(114)	$(114)
		Three Months Ended		**Nine Months Ended**	
(In Millions)	**Location of Gains (Losses) Recognized in Income on Derivatives**	**Oct. 1, 2011**	**Sept. 25, 2010**	**Oct. 1, 2011**	**Sept. 25, 2010**
Currency forwards	Interest and other, net	$ 34	$ (60)	$ 50	$ 83
Interest rate swaps	Interest and other, net	(11)	(20)	(30)	(66)
Currency interest rate swaps	Interest and other, net	85	(132)	(43)	94
Total return swaps	Various	(64)	33	(44)	31
Equity options	Gains (losses) on other equity investments, net	(4)	63	(70)	78
Other	Gains (losses) on other equity investments, net	1	2	3	(2)
Total		**$ 41**	**$ (114)**	**$ (134)**	**$ 218**

Note 10: Other Long-Term Assets

Other long-term assets at the end of each period were as follows:

(In Millions)	**Oct. 1, 2011**	**Dec. 25, 2010**
Equity method investments	$ 1,772	$ 1,791
Non-marketable cost method investments	1,060	872
Non-current deferred tax assets	333	289
Loans receivable	749	741
Other	825	558
Total other long-term assets	**$ 4,739**	**$ 4,251**

Note 11: Equity Method Investments

IMFT/IMFS

Micron and Intel formed IM Flash Technologies, LLC (IMFT) in January 2006 and IM Flash Singapore, LLP (IMFS) in February 2007. We established these joint ventures to manufacture NAND flash memory products for Micron and Intel. As of October 1, 2011, we owned a 49% interest in IMFT and an 18% interest in IMFS. The carrying value of our investment in IMFT/IMFS was $1.4 billion as of October 1, 2011 ($1.5 billion as of December 25, 2010) and is classified within other long-term assets. In the third quarter of 2011, we made an additional investment of $131 million in IMFS, which increased our ownership interest compared to the second quarter of 2011. The IMFS fabrication facility began initial production in the second quarter of 2011. 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. As a result of our overall net reduction of our ownership interest in IMFS, Micron now appoints the majority of the managers on the IMFS board. These ventures are expected to operate until 2016 but are subject to earlier termination under certain terms and conditions.

These joint ventures are variable interest entities. All costs of the joint ventures will be passed on to Micron and Intel through our purchase agreements. IMFT and IMFS are dependent upon Micron and Intel for any additional cash requirements. Our known maximum exposure to loss approximated the carrying value of our investment balance in IMFT/IMFS as of October 1, 2011. Except for the amount due to IMFT/IMFS for product purchases and services, we did not have any additional liabilities recognized on our consolidated condensed balance sheets in connection with our interests in these joint ventures as of October 1, 2011. Future cash calls could increase our investment balance and the related exposure to loss. Potential future losses could be higher than the carrying amount of our investment, as Intel and Micron are liable for other future operating costs or obligations of IMFT/IMFS. Finally, as we are currently committed to purchasing 49% of IMFT s and 29% of IMFS s production output and production-related services, we may be required to purchase products at a cost in excess of realizable value. Our contractual commitment to purchase product output and fund production-related services adjusts to changes in our ownership percentage on a lag.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Our portion of IMFT/IMFS costs, primarily related to product purchases and production-related services, was approximately $255 million during the third quarter of 2011 and approximately $725 million during the first nine months of 2011 (approximately $200 million during the third quarter of 2010 and approximately $580 million during the first nine months of 2010). The amount due to IMFT/IMFS for product purchases and services provided was approximately $155 million as of October 1, 2011 (approximately $105 million as of December 25, 2010). During the first nine months of 2011, $172 million was returned to Intel by IMFT/IMFS, which is reflected as a return of equity method investment within investing activities on the consolidated condensed statements of cash flows ($151 million during the first nine months of 2010).

Under the accounting standards for consolidating variable interest entities, the consolidating investor is the entity with the power to direct the activities of the venture that most significantly impact the venture s economic performance and with the obligation to absorb losses or the right to receive benefits from the venture that could potentially be significant to the venture. We have determined that we do not have both of these characteristics and, therefore, we account for our interests using the equity method of accounting.

Intel-GE Care Innovations, LLC

In the first quarter of 2011, Intel and General Electric Company (GE) formed an equally owned joint venture, Intel-GE Care Innovations, LLC (Care Innovations), in the healthcare industry that focuses on independent living and delivery of health-related services via telecommunications. The company was formed by combining assets of GE Healthcare s Home Health division and Intel s Digital Health Group. As a result of the formation of Care Innovations, we recognized a gain of $164 million in the first quarter of 2011 that is recorded in interest and other, net. The carrying value of our investment in Care Innovations was $149 million as of October 1, 2011 and is classified in other long-term assets.

Care Innovations is dependent upon Intel and GE for any additional cash requirements and, therefore, is a variable interest entity. Our known maximum exposure to loss approximated the carrying value of our investment balance in Care Innovations as of October 1, 2011. In addition to the potential loss of our existing investment, our actual losses could be higher, as we are liable to contribute additional future funding up to $65 million if Care Innovations meets established milestones.

Intel and GE share the power to direct all of Care Innovations activities that most significantly impact its economic performance. As a result, we account for our interests in Care Innovations under the equity method of accounting.

Note 12: Gains (Losses) on Equity Method Investments, Net

Gains (losses) on equity method investments, net included:

	$ 243	$ 243	$ 243	$ 243
	Three Months Ended		**Nine Months Ended**	
(In Millions)	**Oct. 1, 2011**	**Sept. 25, 2010**	**Oct. 1, 2011**	**Sept. 25, 2010**
Equity method losses, net	$ (63)	$ (28)	$ (192)	$ (72)
Impairment charges				(10)
Other, net	23	154	44	245
Total gains (losses) on equity method investments, net	**$ (40)**	**$ 126**	**$ (148)**	**$ 163**

Note 13: Gains (Losses) on Other Equity Investments, Net

Gains (losses) on other equity investments, net included:

	$ 243	$ 243	$ 243	$ 243
	Three Months Ended		**Nine Months Ended**	
(In Millions)	**Oct. 1, 2011**	**Sept. 25, 2010**	**Oct. 1, 2011**	**Sept. 25, 2010**
Impairment charges	$ (79)	$ (32)	$ (102)	$ (85)
Gains on sales, net	189	22	276	125
Other, net	22	(39)	69	36
Total gains (losses) on other equity investments, net	**$ 132**	**$ (49)**	**$ 243**	**$ 76**

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 14: Interest and Other, Net

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

	Three Months Ended		Nine Months Ended	
(In Millions)	**Oct. 1, 2011**	**Sept. 25, 2010**	**Oct. 1, 2011**	**Sept. 25, 2010**
Interest income	$ 22	$ 35	$ 70	$ 90
Interest expense			(6)	
Other, net	(7)	3	157	(12)
Total interest and other, net	**$ 15**	**$ 38**	**$ 221**	**$ 78**

In the first quarter of 2011, we recognized a gain upon formation of the Intel and GE joint venture, Care Innovations, of $164 million, included within other, net, in the table above. See Note 11: Equity Method Investments, for further information.

Note 15: Acquisitions

McAfee, Inc.

On February 28, 2011, we completed the acquisition of McAfee by acquiring all issued and outstanding common shares in exchange for cash. The acquired company will continue to operate as McAfee and offer products for endpoint security, system security, consumer security, network security, and risk and compliance. In addition to managing the existing McAfee business, the objective of the acquisition is to accelerate and enhance the combination of hardware and software security solutions, improving the overall security of our platforms.

Total consideration to acquire McAfee was $6.7 billion (net of $943 million of cash and cash equivalents acquired) and comprised the following:

(In Millions)	
Cash	$ 6,652
Share-based awards assumed	48
Total	**$ 6,700**

The allocation of purchase consideration to assets and liabilities is not yet finalized. The preliminary allocation of the purchase price was based upon a preliminary valuation and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary purchase price allocation that are not yet finalized are the determination of the tax basis of certain assets and liabilities, the determination of certain tax carry forwards, residual goodwill, and the allocation of goodwill to our reporting units. Reporting units are equivalent to our operating segments. The preliminary fair values of the assets acquired and liabilities assumed by major class in the acquisition of McAfee were recognized as follows:

(In Millions)	
Marketable debt securities	$ 329
Goodwill	4,299
Identified intangible assets	3,552

Deferred tax assets	738
Other assets	417
Deferred income	(1,049)
Deferred tax liabilities	(1,191)
Other liabilities	(395)
Total	