INTEL CORP
Form 10-Q
May 09, 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 April 2, 2011.

Or

o 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 o

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 o

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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Shares outstanding of the Registrant s common stock:

Class	Outstanding as of April 29, 2011
Common stock, $0.001 par value	5,302 million

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTEL CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended	
(In Millions, Except Per Share Amounts)	April 2, 2011	March 27, 2010
Net revenue	**$ 12,847**	**$ 10,299**
Cost of sales	4,962	3,770
Gross margin	**7,885**	**6,529**
Research and development	1,916	1,564
Marketing, general and administrative	1,775	1,514
Amortization of acquisition-related intangibles	36	3
Operating expenses	**3,727**	**3,081**
Operating income	**4,158**	**3,448**
Gains (losses) on equity method investments, net	(42)	(39)
Gains (losses) on other equity investments, net	70	8
Interest and other, net	185	29
Income before taxes	**4,371**	**3,446**
Provision for taxes	1,211	1,004
Net income	**$ 3,160**	**$ 2,442**
Basic earnings per common share	**$ 0.58**	**$ 0.44**
Diluted earnings per common share	**$ 0.56**	**$ 0.43**
Cash dividends declared per common share	**$ 0.3624**	**$ 0.3150**
Weighted average common shares outstanding:		
Basic	**5,452**	**5,529**

Diluted	**5,606**	**5,681**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions, Except Par Value)	April 2, 2011	Dec. 25, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 4,188	$ 5,498
Short-term investments	3,536	11,294
Trading assets	4,254	5,093
Accounts receivable, net	3,542	2,867
Inventories	4,099	3,757
Deferred tax assets	1,906	1,488
Other current assets	1,270	1,614
Total current assets	**22,795**	**31,611**
Property, plant and equipment, net of accumulated depreciation of $33,453 ($32,582 as of December 25, 2010)	**19,559**	**17,899**
Marketable equity securities	**980**	**1,008**
Other long-term investments	**1,863**	**3,026**
Goodwill	**9,069**	**4,531**
Identified intangible assets, net	**6,872**	**860**
Other long-term assets	**4,414**	**4,251**
Total assets	**$ 65,552**	**$ 63,186**
Liabilities and stockholders equity		
Current liabilities:		
Short-term debt	$ 54	$ 38
Accounts payable	2,757	2,290
Accrued compensation and benefits	1,536	2,888
Accrued advertising	1,055	1,007
Deferred income	1,813	747
Income taxes payable	729	232
Other accrued liabilities	3,621	2,125
Total current liabilities	**11,565**	**9,327**
Long-term income taxes payable	**267**	**190**
Long-term debt	**2,083**	**2,077**
Long-term deferred tax liabilities	**1,783**	**926**
Other long-term liabilities	**2,505**	**1,236**
Contingencies (Note 24)		
Stockholders equity:		
Preferred stock		

Common stock and capital in excess of par value, 5,365 shares issued and 5,336 shares outstanding (5,581 issued and 5,511 outstanding as of December 25, 2010)	16,271	16,178
Accumulated other comprehensive income (loss)	481	333
Retained earnings	30,597	32,919
Total stockholders equity	**47,349**	**49,430**
Total liabilities and stockholders equity	**$ 65,552**	**$ 63,186**

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended	
(In Millions)	April 2, 2011	March 27, 2010
Cash and cash equivalents, beginning of period	**$ 5,498**	**$ 3,987**
Cash flows provided by (used for) operating activities:		
Net income	3,160	2,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,287	1,080
Share-based compensation	300	248
Net loss on retirement of assets	36	33
Excess tax benefit from share-based payment arrangements	(1)	(2)
Amortization of intangibles	155	61
(Gains) losses on equity method investments, net	42	39
(Gains) losses on other equity investments, net	(70)	(8)
(Gains) losses on divestitures	(164)	
Deferred taxes	(109)	(6)
Changes in assets and liabilities:		
Accounts receivable	(504)	88
Inventories	(251)	(51)
Accounts payable	404	29
Accrued compensation and benefits	(1,401)	(1,095)
Income taxes payable and receivable	1,032	916
Other assets and liabilities	97	305
Total adjustments	853	1,637
Net cash provided by operating activities	**4,013**	**4,079**
Cash flows provided by (used for) investing activities:		
Additions to property, plant and equipment	(2,723)	(928)
Acquisitions, net of cash acquired	(8,216)	(37)
Purchases of available-for-sale investments	(3,569)	(3,235)
Sales of available-for-sale investments	7,594	218
Maturities of available-for-sale investments	5,172	2,397
Purchases of trading assets	(1,540)	(2,397)
Maturities and sales of trading assets	2,578	1,554
Origination of loans receivable		(249)
Investments in non-marketable equity investments	(147)	(69)
Return of equity method investments	24	70
Proceeds from divestitures	50	
Other investing	133	4
Net cash used for investing activities	**(644)**	**(2,672)**

Cash flows provided by (used for) financing activities:		
Increase (decrease) in short-term debt, net	16	158
Proceeds from government grants	56	79
Excess tax benefit from share-based payment arrangements	1	2
Proceeds from sales of shares through employee equity incentive plans	239	228
Repurchase of common stock	(4,006)	(3)
Payment of dividends to stockholders	(994)	(870)
Net cash used for financing activities	**(4,688)**	**(406)**
Effect of exchange rate fluctuations on cash and cash equivalents	**9**	
Net increase (decrease) in cash and cash equivalents	**(1,310)**	**1,001**
Cash and cash equivalents, end of period	**$ 4,188**	**$ 4,988**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	$	$
Income taxes, net of refunds	$ 269	$ 127

See accompanying notes.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited

Note 1: Basis of Presentation

We prepared our interim consolidated condensed financial statements that accompany these notes in conformity with U.S. generally accepted accounting principles, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 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 14: 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 the first quarter of 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 the product revenue, are deferred and amortized over the same period that the related revenue is recognized.

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 in 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.

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INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 4: 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 April 2, 2011 and December 25, 2010:

(In Millions)	April 2, 2011 Fair Value Measured and Recorded at Reporting Date Using				December 25, 2010 Fair Value Measured and Recorded at Reporting Date Using			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents:								
Commercial paper	$	$ 2,035	$	$ 2,035	$	$ 2,600	$	$ 2,600
Bank deposits		879		879		560		560
Money market fund deposits	342			342	34			34
Government bonds	144	44		188	1,279	505		1,784
Corporate bonds	4	12		16				
Short-term investments:								
Government bonds	423	767		1,190	4,890	1,320		6,210
Corporate bonds	43	1,101	3	1,147	121	1,378	1	1,500
Commercial paper		616		616		2,712		2,712
Bank deposits		570		570		858		858
Asset-backed securities			13	13			14	14
Trading assets:								
Government bonds	126	1,749		1,875	311	2,115		2,426
Corporate bonds	202	811		1,013	199	916		1,115
Marketable equity securities	520			520	388			388
Municipal bonds		368		368		375		375
Commercial paper		247		247		488		488
Asset-backed securities			168	168			190	190
Bank deposits		46		46		108		108
Money market fund deposits	17			17	3			3
Other current assets:								
Derivative assets		256		256		330		330
Marketable equity securities	955	25		980	785	223		1,008
Other long-term investments:								
Government bonds	15	1,080		1,095	83	2,002		2,085
Corporate bonds	128	449	62	639	104	601	50	755
Bank deposits		73		73		133		133
Asset-backed securities			56	56			53	53
Other long-term assets:								
Loans receivable		685		685		642		642
Derivative assets		8	36	44		19	31	50
Total assets measured and recorded at fair value	**$ 2,919**	**$ 11,821**	**$ 338**	**$ 15,078**	**$ 8,197**	**$ 17,885**	**$ 339**	**$ 26,421**

Liabilities								
Other accrued liabilities:								
Derivative liabilities	$	$ 214	$ 7	$ 221	$	$ 201	$ 7	$ 208
Long-term debt			130	130			128	128
Other long-term liabilities:								
Derivative liabilities		79		79		47		47
Total liabilities measured and recorded at fair value	**$**	**$ 293**	**$ 137**	**$ 430**	**$**	**$ 248**	**$ 135**	**$ 383**

Government bonds include bonds issued or deemed to be guaranteed by government entities, such as non-U.S. governments, 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 three months ended April 2, 2011 and 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			3		(2)	1
Included in other comprehensive income (loss)	5					5
Purchases	9	13	2			
Settlements and maturities		(33)				
Balance as of April 2, 2011	**$ 65**	**$ 237**	**$ 36**	**$ (7)**	**$ (130)**	
Changes in unrealized gains or losses included in earnings related to assets and liabilities still held as of April 2, 2011	$	$	$ 3	$	$ (2)	$ 1

	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 in interest and other, net on the consolidated condensed statements of operations. During 2010, we transferred corporate bonds from Level 3 to Level 2 due to improved availability of observable market data and/or 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 April 2, 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. 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 first quarter of 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 first quarter of 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 April 2, 2011 and December 25, 2010, no other instruments were similar to the 2007 Arizona bonds for which we elected fair value treatment.

As of April 2, 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 three months ended April 2, 2011, and the gains (losses) recorded during the three months ended April 2, 2011 on those assets:

(In Millions)	Net Carrying Value as of April 2, 2011	Fair Value Measured and Recorded Using Level 1	Level 2	Level 3	Total Gains (Losses) for Three Months Ended April 2, 2011
Non-marketable equity investments	$ 19	$	$	$ 19	$ (14)
Property, plant and equipment	$	$	$	$	$ (10)
Total gains (losses) for assets held as of April 2, 2011					**$ (24)**
Gains (losses) for property, plant and equipment no longer held					$ (26)
Total gains (losses) for recorded non-recurring measurement					**$ (50)**

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 three months ended March 27, 2010, and the gains (losses) recorded during the three months ended March 27, 2010 on those assets:

(In Millions)	Net Carrying Value as of March 27, 2010	Fair Value Measured and Recorded Using Level 1	Level 2	Level 3	Total Gains (Losses) for Three Months Ended March 27, 2010
Non-marketable equity investments	$ 86	$	$	$ 86	$ (46)
Property, plant and equipment	$	$	$	$	$ (25)
Total gains (losses) for assets held as of March 27, 2010					**$ (71)**
Gains (losses) for property, plant and equipment no longer held					$ (8)
Total gains (losses) for recorded non-recurring measurement					**$ (79)**

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 quarter 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, based on assumed market segment size and assumed market segment share; costs; and discount rates based on the risk profile of comparable companies. Estimates of market segment size, market segment share, 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, and the terms of the investees issued interests.

Additionally, certain of our property, plant and equipment was measured and recorded at fair value during the first quarter 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 April 2, 2011 and December 25, 2010 were as follows:

	April 2, 2011		December 25, 2010	
(In Millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-marketable equity investments	$ 2,749	$ 5,691	$ 2,633	$ 5,144
Marketable equity method investment	$ 33	$ 179	$ 31	$ 167
Loans receivable	$ 200	$ 200	$ 208	$ 208
Long-term debt	$ 1,953	$ 2,279	$ 1,949	$ 2,283

As of April 2, 2011 and December 25, 2010, the unrealized loss position of our non-marketable equity investments were 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 $179 million based on the quoted closing stock price as of April 2, 2011 ($167 million as of December 25, 2010).

The carrying amount and fair value of loans receivable exclude $685 million of loans measured and recorded at fair value as of April 2, 2011 ($642 million as of December 25, 2010). The carrying amount and fair value of long-term debt exclude $130 million of long-term debt measured and recorded at fair value as of April 2, 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 fair value of our long-term debt takes into consideration variables such as credit-rating changes and interest rate changes. The credit quality of our loans receivable remains high, with credit ratings of BBB+/A2 or better as of April 2, 2011.

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, see Note 17: Identified Intangible Assets. As of April 2, 2011, the carrying amount of the liability arising from the agreement was $1.1 billion and is classified within other accrued liabilities and other long-term liabilities, as applicable, on the consolidated condensed balance sheet. 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.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 5: Trading Assets

Trading assets as of April 2, 2011 and December 25, 2010 were as follows:

(In Millions)	April 2, 2011	Dec. 25, 2010
Marketable debt instruments	$ 3,734	$ 4,705
Marketable equity securities	520	388
Total trading assets	**$ 4,254**	**$ 5,093**

Net gains on marketable debt instruments classified as trading assets still held at the reporting date were $61 million in the first quarter of 2011 (net losses of $85 million in the first quarter of 2010). Net losses on the related derivatives were $50 million in the first quarter of 2011 (net gains of $75 million in the first quarter of 2010).

Net gains on marketable equity securities classified as trading assets still held at the reporting date, excluding the impacts of the related derivatives, were $144 million in the first quarter of 2011.

Note 6: Available-for-Sale Investments

Available-for-sale investments as of April 2, 2011 and December 25, 2010 were as follows:

	April 2, 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	$ 2,651	$	$	$ 2,651	$ 5,312	$	$	$ 5,312
Government bonds	2,471	4	(2)	2,473	10,075	9	(5)	10,079
Corporate bonds	1,791	13	(2)	1,802	2,250	9	(4)	2,255
Bank deposits	1,522			1,522	1,550	1		1,551
Marketable equity securities	371	612	(3)	980	380	629	(1)	1,008
Money market fund deposits	342			342	34			34
Asset-backed securities	78		(9)	69	76		(9)	67
Total available-for-sale investments	**$ 9,226**	**$ 629**	**$ (16)**	**$ 9,839**	**$ 19,677**	**$ 648**	**$ (19)**	**$ 20,306**

In the preceding table, government bonds include bonds issued or deemed to be guaranteed by government entities, such as non-U.S. governments, U.S. Treasury securities, U.S. agency securities, and FDIC-insured corporate bonds.

Bank deposits were primarily issued by institutions outside the U.S. as of April 2, 2011 and December 25, 2010.

The amortized cost and fair value of available-for-sale debt investments as of April 2, 2011, by contractual maturity, were as follows:

(In Millions)	Cost	Fair Value
Due in 1 year or less	$ 6,641	$ 6,642
Due in 1 2 years	1,261	1,268
Due in 2 5 years	529	535

Due after 5 years	4	3
Instruments not due at a single maturity date	420	411
Total	**$ 8,855**	**$ 8,859**

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

In the first quarter of 2011, we sold available-for-sale investments for proceeds of $7.6 billion ($293 million in the first quarter of 2010). Substantially all of the proceeds 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 $28 million in the first quarter of 2011 ($67 million in the first quarter 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.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

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	
(In Millions)	**April 2, 2011**	**March 27, 2010**
Net unrealized holding gains (losses) included in other comprehensive income (loss)	$ 36	$ 151
Net gains (losses) reclassified from accumulated other comprehensive income (loss) into earnings	$ 44	$ 67

Note 7: Inventories

Inventories at the end of each period were as follows:

(In Millions)	**April 2, 2011**	**Dec. 25, 2010**
Raw materials	$ 585	$ 471
Work in process	1,783	1,887
Finished goods	1,731	1,399
Total inventories	**$ 4,099**	**$ 3,757**

Note 8: 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 within 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 and non-U.S.-dollar-denominated debt instruments classified as trading assets. 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 within 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. 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 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, both of which are recorded in interest and other, net.

In 2010, we sold our ownership interest in Numonyx B.V. to Micron Technology, Inc. for consideration consisting of shares of Micron. We have entered into equity options that economically hedge our remaining ownership interest in Micron.

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.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Volume of Derivative Activity

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

(In Millions)	**April 2, 2011**	**Dec. 25, 2010**	**March 27, 2010**
Currency forwards	$ 8,123	$ 8,502	$ 6,614
Interest rate swaps	2,159	2,166	1,882
Currency interest rate swaps	1,690	2,259	2,015
Embedded debt derivatives	3,600	3,600	3,600
Total return swaps	649	627	549
Equity options	496	496	260
Currency options		94	94
Other	128	66	55
Total	**$ 16,845**	**$ 17,810**	**$ 15,069**

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

(In Millions)	**April 2, 2011**	**Dec. 25, 2010**	**March 27, 2010**
Euro	$ 4,035	$ 4,445	$ 3,983
Japanese yen	3,047	3,440	2,152
Israeli shekel	1,199	1,191	719
Chinese yuan	341	347	413
Malaysian ringgit	336	382	294
British pound sterling	317	424	643
Other	538	626	519
Total	**$ 9,813**	**$ 10,855**	**$ 8,723**

Credit-Risk-Related Contingent Features

An insignificant amount of our derivative instruments 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. As of April 2, 2011 and December 25, 2010, we did not have any derivative instruments with credit-risk-related contingent features that were in a significant net liability position.

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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 April 2, 2011 and December 25, 2010 were as follows:

	April 2, 2011				**December 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	$ 202	$ 8	$ 1	$	$ 120	$ 3	$ 43	$ 3
Other	4				2			
Total derivatives designated as hedging instruments	**$ 206**	**$ 8**	**$ 1**	**$**	**$ 122**	**$ 3**	**$ 43**	**$ 3**
Derivatives not designated as hedging instruments								
Currency forwards	$ 42	$	$ 26	$	$ 35	$	$ 14	$
Interest rate swaps	2		79		2		96	
Currency interest rate swaps	6		57	41	64	17	47	13
Embedded debt derivatives				38				31
Total return swaps		7			41	6		
Equity options		5	58		65	5	7	
Other		24			1	19	1	
Total derivatives not designated as hedging instruments	**$ 50**	**$ 36**	**$ 220**	**$ 79**	**$ 208**	**$ 47**	**$ 165**	**$ 44**
Total derivatives	**$ 256**	**$ 44**	**$ 221**	**$ 79**	**$ 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 months ended April 2, 2011 and March 27, 2010 were as follows:

Gains (Losses)
Recognized in

(In Millions)	Gains (Losses) Recognized in OCI on Derivatives (Effective Portion) Q1 2011	Q1 2010	Location	Gains (Losses) Reclassified from Accumulated OCI into Income by Derivative Instrument Type (Effective Portion) Q1 2011	Q1 2010
Currency forwards	$ 201	$ (52)	Cost of sales	$ 34	$ 21
			Research and development	8	9
			Marketing, general and administrative	5	7
Other	3		Cost of sales	1	(2)
Total	**$ 204**	**$ (52)**		**$ 48**	**$ 35**

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 $185 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.

INTEL CORPORATION

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:

(In Millions)	Location of Gains (Losses) Recognized in Income on Derivatives	Three Months Ended April 2, 2011	Three Months Ended March 27, 2010
Currency forwards	Interest and other, net	$ 14	$ 35
Interest rate swaps	Interest and other, net	(1)	(13)
Currency interest rate swaps	Interest and other, net	(110)	82
Total return swaps	Interest and other, net	23	24
Equity options	Gains (losses) on other equity investments, net	(117)	(35)
Other	Gains (losses) on other equity investments, net	2	(4)
Total		**$ (189)**	**$ 89**

Note 9: Other Long-Term Assets

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

(In Millions)	April 2, 2011	Dec. 25, 2010
Equity method investments	$ 1,876	$ 1,791
Non-marketable cost method investments	906	872
Non-current deferred tax assets	340	289
Loans receivable	685	741
Other	607	558
Total other long-term assets	**$ 4,414**	**$ 4,251**

Note 10: Equity Method and Cost 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 April 2, 2011, we own 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 April 2, 2011 ($1.5 billion as of December 25, 2010) and is classified within other long-term assets. The IMFS fabrication facility is in its start-up phase with initial production beginning 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 the reduction of our ownership interest in IMFS during 2010, 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 April 2, 2011. As of April 2, 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 sheet in connection with our interests in these joint ventures. In addition to the potential loss of our existing investment, our actual losses could be higher, as Intel and Micron are liable for other future operating costs or obligations of IMFT/IMFS. In addition, future cash calls could increase our investment balance and the related exposure to loss. Finally, as we are currently committed to purchasing 49% of IMFT s and 47% 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 one-year lag.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Our portion of IMFT costs, primarily related to product purchases and production-related services, was approximately $205 million during the first quarter of 2011 (approximately $185 million during the first quarter of 2010). The amount due to IMFT for product purchases and services provided was approximately $105 million as of April 2, 2011 (approximately $95 million as of December 25, 2010). During the first quarter of 2011, $24 million was returned to Intel by IMFT, which is reflected as a return of equity method investment within investing activities on the consolidated condensed statements of cash flows ($68 million during the first quarter 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 will focus on independent living and delivery of health-related services via telecommunications. The new 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. Our investment in Care Innovations was $168 million as of April 2, 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 April 2, 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 approximately $65 million if Care Innovations were to meet 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 11: Gains (Losses) on Equity Method Investments, Net

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

	Three Months Ended	
(In Millions)	**April 2, 2011**	**March 27, 2010**
Equity method losses, net	$ (62)	$ (35)
Impairment charges		(4)
Other, net	20	
Total gains (losses) on equity method investments, net	**$ (42)**	**$ (39)**

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

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

	Three Months Ended	
(In Millions)	**April 2, 2011**	**March 27, 2010**
Impairment charges	$ (14)	$ (42)
Gains on sales, net	45	83

Other, net		39		(33)
Total gains (losses) on other equity investments, net	**$**	**70**	**$**	**8**

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 13: Interest and Other, Net

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

	Three Months Ended	
(In Millions)	**April 2, 2011**	**March 27, 2010**
Interest income	$ 28	$ 26
Interest expense	(6)	
Other, net	163	3
Total interest and other, net	**$ 185**	**$ 29**

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 10: Equity Method and Cost Method Investments, for further information.

Note 14: 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 endpoint security products, system security products, consumer security products, network security products, and risk and compliance products. 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	4,295
Identified intangible assets	3,552
Deferred tax assets	742
Other assets	417
Deferred income	(1,049)

Deferred tax liabilities	(1,191)
Other liabilities	(395)
Total	**$ 6,700**

The preliminary goodwill of $4.3 billion arising from the acquisition is primarily attributed to the assembled workforce of McAfee and synergies to enable the combination of security and hardware from a single company to protect online devices. Substantially all of the goodwill recognized is not expected to be deductible for tax purposes. For the information on the assignment of preliminary goodwill for the acquisition, see Note 16: Goodwill.

INTEL CORPORATION
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The identified intangible assets assumed in the acquisition of McAfee were recognized as follows based upon their fair values as of February 28, 2011:

	Fair Value (In Millions)	Estimated Useful Life (In Years)
Developed technology	$ 1,221	4
Customer relationships	1,418	2 7
Total identified intangible assets subject to amortization	**$ 2,639**	
In-process research and development	92	
Trade names	821	
Total identified intangible assets	**$ 3,552**	

Acquired developed technology represents the fair values of McAfee products that have reached technological feasibility and are a part of McAfee s product offerings. Customer relationships represent the fair values of the underlying relationships and agreements with McAfee s customers. In-process research and development represents the fair values of incomplete McAfee research and development projects that had not reached technological feasibility as of the date of acquisition. In the future, the fair value of each project at the acquisition date will be either amortized or impaired depending on whether the project is completed or abandoned. Trade names are indefinite lived intangible assets and represent the fair values of brand and name recognition associated with the marketing of McAfee s products and services.

Other First Quarter 2011 Acquisitions

During the first quarter of 2011, in addition to the McAfee acquisition, we completed four acquisitions qualifying as business combinations in exchange for total consideration of $1.6 billion, substantially all cash consideration. Total net cash consideration to acquire the Wireless Solutions (WLS) business of Infineon Technologies AG, which operates as Intel Mobile Communications (IMC), was $1.4 billion. The WLS business offers mobile phone components such as baseband processors, radio frequency transceivers, and power management chips. In addition to managing the existing WLS business, the objective of the acquisition is to provide solutions that enable a broad range of computing applications to have wireless connectivity.

The allocation of purchase consideration to assets and liabilities acquired in the acquisition of the WLS business 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 valuation of net tangible assets acquired, residual goodwill, and the allocation of goodwill to our reporting units. The preliminary fair values of the assets acquired and liabilities assumed by major class in the acquisitions completed during the first quarter of 2011, excluding McAfee, was allocated as follows:

(In Millions)	
Fair value of net tangible assets acquired	$ 157
Goodwill	202
Identified intangible assets	1,244
Total	**$ 1,603**

For the information on the assignment of preliminary goodwill for the acquisitions, see Note 16: Goodwill.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

The identified intangible assets assumed in the acquisitions completed during the first quarter of 2011, excluding McAfee, were recognized as follows:

	Fair Value (In Millions)	Estimated Useful Life (In Years)
Developed technology	$ 1,010	3 9
Customer relationships	93	5 8
Other intangible assets	43	2 5
Total identified intangible assets subject to amortization	**$ 1,146**	
In-process research and development	98	
Total identified intangible assets	**$ 1,244**	

Acquired developed technology represents the fair values of the acquirees products that have reached technological feasibility and are a part of the acquirees product lines. Customer relationships represent the fair values of the underlying relationships and agreements with the acquirees customers. In-process research and development represents the fair values of incomplete research and development projects that had not reached technological feasibility as of the date of acquisition.

Actual and Pro Forma Results of Acquirees

Net revenue and net income attributable to all acquisitions completed during the first quarter of 2011 have been included in our consolidated condensed statements of income from their respective acquisition dates to the period ending April 2, 2011. The acquisitions completed during the first quarter of 2011 were not individually significant to our consolidated condensed results of operations, however, they were significant in the aggregate. For the three months ended April 2, 2011, the acquisitions completed in 2011 contributed approximately $500 million to our net revenue and reduced our net income by approximately $70 million; substantially all of these impacts were attributable to McAfee and IMC. The results of the acquisitions resulted in a reduction to our net income due to the amortization of acquired identified intangible assets.

McAfee is a non-reportable operating segment and is aggregated with similar non-reportable operating segments within the software and services operating segments category for segment reporting purposes. IMC is a non-reportable operating segment and is aggregated with similar non-reportable operating segments within the other Intel architecture operating segments category for segment reporting purposes. For further information, see Note 25: Operating Segment Information.

The unaudited pro forma financial results for the three months ended April 2, 2011 and March 27, 2010 combine the historical results of Intel for the three months ended April 2, 2011 and March 27, 2010, respectively, along with the historical results of the businesses acquired during the first quarter of 2011 for the three months ended March 31, 2011 and March 31, 2010, respectively (due to differences in reporting periods). The results include the effects of pro forma adjustments as if all businesses acquired in the first quarter of 2011 were acquired on December 27, 2009. The three months ended March 27, 2010 pro forma results include a nonrecurring adjustment of $113 million which reduces net income due to the revaluation of McAfee s historic deferred revenue to fair value.

The pro forma financial results presented below do not include any anticipated synergies or other expected benefits of the acquisitions. This is presented for informational purposes only and is not indicative of future operations or results that would have been achieved had the acquisitions been completed as of December 27, 2009.

(In Millions, Except Per Share Amounts)	Three Months Ended April 2, 2011	March 27, 2010
Net revenue	$ 13,427	$ 11,014
Net income	$ 3,184	$ 2,304
Diluted earnings per share	$ 0.57	$ 0.41

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 15: Divestitures

In the first quarter of 2011, we completed the divestiture of our Digital Health Group by entering into an agreement with GE to form an equally owned joint venture to create a new healthcare company focused on independent living and delivery of health-related services via telecommunications. The new company, Care Innovations, was formed by combining assets of GE Healthcare s Home Health division and Intel s Digital Health Group. During the first quarter of 2011, as a result of the formation of Care Innovations, we recognized a gain of $164 million, within interest and other, net. For further information, see Note 10: Equity Method and Cost Method Investments.

Note 16: Goodwill

Goodwill activity for the first quarter of 2011 was as follows:

(In Millions)	PC Client Group	Data Center Group	Other Intel Architecture Operating Segments	Software and Services Operating Segments	Unallocated	Total
December 25, 2010	**$ 2,234**	**$ 1,459**	**$ 582**	**$ 256**	**$**	**$ 4,531**
Additions due to McAfee acquisition					4,295	4,295
Additions due to other acquisitions			20	19	163	202
Transfers	(86)		86			
Effect of exchange rate fluctuations				1	40	41
April 2, 2011	**$ 2,148**	**$ 1,459**	**$ 688**	**$ 276**	**$ 4,498**	**$ 9,069**

During the first quarter of 2011, we formed the Netbook and Tablet Group which includes microprocessors and related chipsets designed for the netbook and tablet market segments. Due to the formation of this new operating segment, goodwill was transferred from our PC Client Group to our Netbook and Tablet Group as shown in the preceding table. Our Netbook and Tablet Group is included in the other Intel architecture operating segments category in the preceding table.

During the first quarter of 2011, we completed the acquisition of McAfee. The goodwill recognized from this acquisition is unallocated to date. We will use information from our annual planning process, which will be completed later this year, to measure the synergistic value that the McAfee acquisition creates for operating segments other than McAfee. In addition to the McAfee acquisition, we completed four other acquisitions during the first quarter of 2011. The substantial majority of the goodwill recognized from these four other acquisitions is unallocated to date as we continue to measure the synergistic value that the acquisitions create for our individual operating segments. The remaining goodwill recognized from these four other acquisitions was allocated to Intel Mobile Communications and our Software and Services Group. Intel Mobile Communications is included in the other Intel architecture operating segments category in the preceding table, while our Software and Services Group is included in the software and services operating segments category. For further information about our acquisitions during the first quarter of 2011, see Note 14: Acquisitions.

No goodwill was impaired during the first quarter of 2011 and 2010, and the accumulated impairment losses as of April 2, 2011 were $713 million: $341 million associated with our PC Client Group, $279 million associated with our Data Center Group, and $93 million associated with other Intel architecture operating segments. The accumulated impairment losses as of December 25, 2010 were $713 million: $355 million associated with our PC Client Group, $279 million associated with our Data Center Group, and $79 million associated with other Intel architecture operating segments.

INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 17: Identified Intangible Assets

Identified intangible assets consisted of the following as of April 2, 2011 and December 25, 2010:

	April 2, 2011		
(In Millions)	Gross Assets	Accumulated Amortization	Net
Acquisition-related developed technology	$ 2,492	$ (170)	$ 2,322
Acquisition-related customer relationships	1,703	(44)	1,659
Acquisition-related trade names	63	(12)	51
Licensed technology	2,308	(577)	1,731
Identified intangible assets subject to amortization	**$ 6,566**	**$ (803)**	**$ 5,763**
Acquisition-related trade names	828		828
Other intangible assets	281		281
Identified intangible assets not subject to amortization	**$ 1,109**	**$**	**$ 1,109**
Total identified intangible assets	**$ 7,675**	**$ (803)**	**$ 6,872**

	December 25, 2010		
(In Millions)	Gross Assets	Accumulated Amortization	Net
Acquisition-related developed technology	$ 235	$ (97)	$ 138
Acquisition-related customer relationships	152	(10)	142
Acquisition-related trade names	46	(10)	36
Licensed technology	1,204	(765)	439
Identified intangible assets subject to amortization	**$ 1,637**	**$ (882)**	**$ 755**
Other intangible assets	105		105
Total identified intangible assets	**$ 1,742**	**$ (882)**	**$ 860**

As a result of our acquisition of McAfee during the first quarter of 2011, we recorded $3.6 billion of identified intangible assets. In addition, as a result of our four other acquisitions during the first quarter of 2011, we recorded $1.2 billion of identified intangible assets, of which substantially all was from the acquisition of the WLS business of Infineon. For further information about identified intangible assets recorded as a result of acquisitions during the first quarter of 2011, see Note 14: Acquisitions.

In January 2011, we entered into a long-term patent cross-license agreement with NVIDIA. Under the agreement, we received a license to all of NVIDIA s patents, while NVIDIA products are licensed to our patents subject to exclusions for x86 products, certain chipsets, and certain flash memory technology products. The agreement also included settlement of the existing litigation between the companies as well as broad mutual general releases. We agreed to make payments totaling $1.5 billion to NVIDIA over six years ($300 million in each of January 2011, 2012, and 2013; and $200 million in each of January 2014, 2015, and 2016), which resulted in a liability totaling approximately $1.4 billion, on a discounted basis. In the fourth quarter of 2010, we recognized an expense of $100 million related to

the litigation settlement. In the first quarter of 2011, we recognized the remaining amount of $1.3 billion as licensed technology which will be amortized into cost of sales over its estimated useful life of 17 years. As of April 2, 2011, the remaining liability of $1.1 billion is classified within other accrued liabilities and other long-term liabilities, as applicable, on the consolidated condensed balance sheet.

INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

For identified intangible assets that are subject to amortization, we recorded amortization expense on the consolidated condensed statements of income as follows:

	Three Months Ended	
(In Millions)	**April 2, 2011**	**March 27, 2010**
Acquisition-related developed technology	$ 73	$ 16
Licensed technology	46	42
Cost of sales	**$ 119**	**$ 58**
Acquisition-related customer relationships	34	1
Acquisition-related trade names	2	2
Amortization of acquisition-related intangibles	**$ 36**	**$ 3**

Based on the identified intangible assets that are subject to amortization as of April 2, 2011, we expect future amortization expense to be as follows:

(In Millions)	**Remainder of 2011**	**2012**	**2013**	**2014**	**2015**
Acquisition-related developed technology	$ 397	$ 509	$ 493	$ 474	$ 204
Licensed technology	133	167	150	140	122
Cost of sales	**$ 530**	**$ 676**	**$ 643**	**$ 614**	**$ 326**
Acquisition-related customer relationships	216	281	261	257	247
Acquisition-related trade names	8	10	10	10	9
Amortization of acquisition-related intangibles	**$ 224**	**$ 291**	**$ 271**	**$ 267**	**$ 256**

Note 18: Deferred Income

Deferred income at the end of each period was as follows:

(In Millions)	**April 2, 2011**	**Dec. 25, 2010**
Deferred income on shipments of components to distributors	$ 826	$ 622
Deferred income from software and services operating segments	987	125
Current deferred income	**$ 1,813**	**$ 747**
Non-current deferred income from software and services operating segments	312	21
Total deferred income	**$ 2,125**	**$ 768**

We classify non-current deferred income from the software and services operating segments within other long-term liabilities on the consolidated condensed balance sheets.

Note 19: Chipset Design Issue

In January 2011, as part of our ongoing quality assurance procedures, we identified a design issue with the Intel® 6 Series Express Chipset family (formerly code-named Cougar Point). The issue affected chipsets sold in the fourth quarter of 2010 and January 2011. We subsequently implemented a silicon fix, and began shipping the updated version of the affected chipset in February 2011. We estimate that the total cost to repair and replace affected materials and systems, located with customers and in the market, will be $654 million. We recorded a charge of $311 million in the fourth quarter of 2010, which comprised $67 million in product costs for the affected chipsets and $244 million to establish a product accrual for this issue. We recognized an additional charge of $343 million in the first quarter of 2011, primarily related to an additional product accrual for the estimated costs to repair and replace affected materials and systems associated with products sold subsequent to December 25, 2010. The charges incurred in the first quarter of 2011 are reflected in the results of the PC Client Group operating segment. As of April 2, 2011, the remaining product accrual for the chipset design issue was $483 million. We are currently working with customers to agree on reimbursement to repair and replace affected materials and systems.

INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 20: Employee Equity Incentive Plans

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

In connection with our completed acquisition of McAfee, we assumed their equity incentive plans and issued replacement awards in the first quarter of 2011. The stock options and restricted stock units issued generally retain the terms and conditions of the respective plans under which they were originally granted. We will not grant additional shares under these plans.

Under the 2006 Equity Incentive Plan (the 2006 Plan), 428 million shares of common stock have been made available for issuance as equity awards to employees and non-employee directors. A maximum of 253 million of these shares can be awarded as non-vested shares (restricted stock) or non-vested share units (restricted stock units). As of April 2, 2011, 186 million shares remained available for future grant under the 2006 Plan.

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. Rights to purchase shares are granted during the first and third quarters of each year. Under the 2006 Stock Purchase Plan, we made 240 million shares of common stock available for issuance through August 2011. As of April 2, 2011, 130 million shares were available for issuance under the 2006 Stock Purchase Plan.

Restricted Stock Unit Awards

Activity with respect to outstanding restricted stock units (RSUs) for the first quarter of 2011 was as follows:

(In Millions, Except Per RSU Amounts)	Number of RSUs	Weighted Average Grant-Date Fair Value
December 25, 2010	**99.8**	**$ 18.56**
Granted	2.8	$ 22.56
Assumed in acquisition	5.8	$ 20.80
Vested	(1.2)	$ 17.42
Forfeited	(1.4)	$ 18.55
April 2, 2011	**105.8**	**$ 18.80**

As of April 2, 2011, 5 million of the outstanding restricted stock units were market-based restricted stock units.

Stock Option Awards

Activity with respect to outstanding stock options for the first quarter of 2011 was as follows:

(In Millions, Except Per Option Amounts)	Number of Options	Weighted Average Exercise Price
December 25, 2010	**386.4**	**$ 20.45**
Granted	3.6	$ 21.09
Assumed in acquisition	11.8	$ 15.95
Exercised	(3.2)	$ 18.52
Cancelled and forfeited	(3.0)	$ 19.78
Expired	(4.9)	$ 26.44

April 2, 2011	**390.7**	**$**	**20.25**
Options exercisable as of:			
December 25, 2010	263.0	$	21.03
April 2, 2011	262.6	$	20.81

INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Stock Purchase Plan

Employees purchased 10.3 million shares in the first quarter of 2011 (9.8 million shares in the first quarter of 2010) for $181 million ($161 million in the first quarter of 2010) under the 2006 Stock Purchase Plan.

Note 21: Common Stock Repurchases

Common Stock Repurchase Program

We have an ongoing authorization, amended in January 2011, from our Board of Directors to repurchase up to $35 billion in shares of our common stock in open market or negotiated transactions. As of April 2, 2011, $10.2 billion remained available for repurchase under the existing repurchase authorization limit. During the first quarter of 2011, we repurchased 189.1 million shares of common stock at a cost of $4.0 billion. We did not make any common stock repurchases under our authorized plan during the first quarter of 2010. We have repurchased 3.6 billion shares at a cost of $74 billion since the program began in 1990. Our repurchases in the first quarter of 2011 were executed in privately negotiated transactions.

Note 22: Earnings Per Share

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

	Three Months Ended	
(In Millions, Except Per Share Amounts)	**April 2, 2011**	**March 27, 2010**
Net income available to common stockholders	**$ 3,160**	**$ 2,442**
Weighted average common shares outstanding basic	**5,452**	**5,529**
Dilutive effect of employee equity incentive plans	102	101
Dilutive effect of convertible debt	52	51
Weighted average common shares outstanding diluted	**5,606**	**5,681**
Basic earnings per common share	**$ 0.58**	**$ 0.44**
Diluted earnings per common share	**$ 0.56**	**$ 0.43**

We computed our basic earnings per common share using net income available to common stockholders and the weighted average number of common shares outstanding during the period. We computed diluted earnings per common share using net income available to common stockholders and the weighted average number of common shares outstanding plus potentially dilutive common shares outstanding during the period. Net income available to participating securities was insignificant for all periods presented.

Potentially dilutive common shares from employee incentive plans are determined by applying the treasury stock method to the assumed exercise of outstanding stock options, the assumed vesting of outstanding restricted stock units, and the assumed issuance of common stock under the stock purchase plan. Potentially dilutive common shares are determined by applying the if-converted method for our 2005 debentures. However, as our 2009 debentures require settlement of the principal amount of the debt in cash upon conversion, with the conversion premium paid in cash or stock at our option, potentially dilutive common shares are determined by applying the treasury stock method. For the first quarter of 2011, we excluded 125 million outstanding weighted average stock options (185 million for the first quarter of 2010) 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. We also excluded our 2009 debentures from the calculation of diluted earnings per

common share because the conversion option of the debentures was anti-dilutive. In the future, we could have potentially dilutive shares if the average market price is above the conversion price.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Note 23: Comprehensive Income

The components of total comprehensive income were as follows:

	Three Months Ended	
(In Millions)	April 2, 2011	March 27, 2010
Net income	$ 3,160	$ 2,442
Change in net unrealized holding gain (loss) on available-for-sale investments	(5)	54
Change in deferred tax asset valuation allowance	(15)	34
Change in net unrealized holding gain (loss) on derivatives	112	(65)
Change in actuarial loss	(7)	(2)
Change in net foreign currency translation adjustment	63	
Total comprehensive income	**$ 3,308**	**$ 2,463**

The components of accumulated other comprehensive income, net of tax, at the end of each period were as follows:

(In Millions)	April 2, 2011	Dec. 25, 2010
Accumulated net unrealized holding gain (loss) on available-for-sale investments	$ 396	$ 401
Accumulated net change in deferred tax asset valuation allowance	188	203
Accumulated net unrealized holding gain (loss) on derivatives	239	127
Accumulated net prior service costs	(36)	(36)
Accumulated net actuarial losses	(369)	(362)
Accumulated net foreign currency translation adjustment	63	
Total accumulated other comprehensive income (loss)	**$ 481**	**$ 333**

Note 24: Contingencies

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, legal proceedings and related government investigations are subject to inherent uncertainties, and unfavorable rulings or other events could occur. Unfavorable rulings could include substantial monetary damages, and in matters for which injunctive relief or other conduct remedies are sought, an injunction or other order prohibiting us from selling one or more products at all or in particular ways, precluding particular business practices, or requiring other remedies such as compulsory licensing of intellectual property. Were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on our business, results of operations, financial position, and overall trends. It is also possible that we could conclude it is in the best interests of our stockholders, employees, and customers to settle one or more such matters, and any such settlement could include substantial payments; however, we have not reached this conclusion with respect to any particular matter at this time.

A number of proceedings generally have challenged and continue to challenge certain of our competitive practices. The allegations in these proceedings vary and are described in more detail in the following paragraphs, but in general

contend that we improperly condition price rebates and other discounts on our microprocessors on exclusive or near-exclusive dealing by some of our customers; claim that our software compiler business unfairly prefers Intel microprocessors over competing microprocessors and that, through the use of our compiler and other means, we have caused inaccurate and misleading benchmark results concerning our microprocessors to be disseminated; allege that we unfairly controlled the content and timing of release of various standard computer interfaces developed by Intel in cooperation with other industry participants; and accuse us of engaging in various acts of improper competitive activity in competing against what is referred to as general-purpose graphics processing units, including certain licensing practices and our actions in connection with developing and disclosing potentially competitive technology.

INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

We believe that we compete lawfully and that our marketing, business, intellectual property, and other challenged practices benefit our customers and our stockholders, and we will continue to conduct a vigorous defense in these proceedings. While we have settled some of these matters, the distractions caused by challenges to these practices from the remaining matters are undesirable, and the legal and other costs associated with defending and resolving our position have been and continue to be significant. We assume that these challenges could continue for a number of years and may require the investment of substantial additional management time and substantial financial resources to explain and defend our position.

Government Competition Matters and Related Consumer Class Actions

In 2001, the European Commission (EC) commenced an investigation regarding claims by Advanced Micro Devices, Inc. (AMD) that we used unfair business practices to persuade clients to buy our microprocessors. Since that time, we have received numerous requests for information and documents from the EC, and we have responded to each of those requests. The EC issued a Statement of Objections in July 2007 and held a hearing on that Statement in March 2008. The EC issued a Supplemental Statement of Objections in July 2008.

In May 2009, the EC issued a decision finding that we had violated Article 82 of the EC Treaty and Article 54 of the European Economic Area Agreement. In general, the EC found that we violated Article 82 (later renumbered as Article 102 by a new treaty) by offering alleged conditional rebates and payments that required our customers to purchase all or most of their x86 microprocessors from us. The EC also found that we violated Article 82 by making alleged payments to prevent sales of specific rival products. The EC imposed a fine in the amount of 1.06 billion ($1.447 billion as of May 2009), which we subsequently paid during the third quarter of 2009, and also ordered us to immediately bring to an end the infringement referred to in the EC decision. In the second quarter of 2009, we recorded the related charge within marketing, general and administrative on the consolidated condensed statements of income. We strongly disagree with the EC s decision, and we appealed the decision to the Court of First Instance (which has been renamed the General Court) in July 2009. The EC filed an answer to our reply brief in November 2010. The court s decision, after oral argument, is expected in 2012.

The EC decision exceeds 500 pages and does not contain specific direction on whether or how we should modify our business practices. Instead, the decision states that we should cease and desist from further conduct that, in the EC s opinion, would violate applicable law. We have taken steps, which are subject to the EC s ongoing review, to comply with that decision pending appeal. We opened discussions with the EC to better understand the decision and to explain changes to our business practices. Based on our current understanding and expectations, we do not believe that any such changes will be material to our financial position, results, or cash flows.

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 February 2006, the KFTC initiated an inspection of documents at our offices in Korea. In September 2007, the KFTC served on 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. In February 2008, the KFTC s examiner submitted a written reply to our response. In March 2008, we submitted a further response. In April 2008, we participated in a pre-hearing conference before the KFTC, and we participated in formal hearings in May and June 2008. In June 2008, the KFTC announced its intent to fine us approximately $25 million for providing discounts to Samsung Electronics Co., Ltd. and TriGem Computer Inc. In November 2008, the KFTC issued a final written decision concluding that our discounts had violated Korean antitrust law and imposing a fine on us of approximately $20 million, which we paid in January 2009. In December 2008, we appealed this decision by filing a lawsuit in the Seoul High Court seeking to overturn the KFTC s decision. We expect a decision from the court in 2011.

In November 2009, the State of New York filed a lawsuit against us in the U.S. District Court for the District of Delaware. The lawsuit alleges that we violated federal antitrust laws; the New York Donnelly Act, which prohibits contracts or agreements to monopolize; and the New York Executive Law, which proscribes underlying violations of federal and state antitrust laws. The lawsuit alleges that we engaged in a systematic worldwide campaign of illegal,

exclusionary conduct to maintain monopoly power and prices in the market for x86 microprocessors through the use of various alleged actions, including exclusive or near-exclusive agreements from large computer makers in exchange for loyalty payments and bribes, and other alleged threats and retaliation. The plaintiff claims that our alleged actions harmed consumers, competition, and innovation. The lawsuit seeks a declaration that our alleged actions have violated the federal and New York antitrust laws and the New York Executive Law; an injunction to prevent further alleged unlawful acts; unspecified damages in an amount to be proven at trial, trebled as provided for by law, restitution, and disgorgement; $1 million for each violation of the Donnelly Act proven by the plaintiff, and attorneys fees and costs. In January 2010, we filed our answer.

INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

In December 2010, the N.Y. Attorney General s staff requested the court s permission to amend its complaint to expand the scope of parties covered by its Donnelly Act and Executive Law claims. Intel filed an opposition to the motion and a hearing is scheduled for May 2011. We disagree with the plaintiffs allegations and claims in both the original complaint and the proposed amended complaint, and intend to conduct a vigorous defense of the lawsuit. The court has set a trial to begin on this matter in February 2012. Because the outcome or range of outcomes in this matter cannot be reasonably estimated, no estimate is provided.

At least 82 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 District of Delaware, as well as in various California, Kansas, and Tennessee state courts. These actions generally repeat the allegations made in a now-settled lawsuit filed against Intel by AMD in June 2005 in the U.S. District Court for the District of Delaware (AMD litigation). Like the AMD lawsuit, these class-action suits allege that Intel engaged in various actions in violation of the Sherman Act and other laws by, among other things, providing discounts and rebates to our manufacturer and distributor customers conditioned on exclusive or near exclusive dealings that allegedly unfairly interfered with AMD s ability to sell its microprocessors, interfering with certain AMD product launches, and interfering with AMD s participation in certain industry standards-setting groups. The class actions allege 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 consolidated by the Multidistrict Litigation Panel to the District of Delaware, and the court has appointed a Special Master to address issues in the litigation as assigned by the court. In January 2010, the plaintiffs in the Delaware action filed a motion for sanctions for our failure to preserve evidence. This motion largely copies a motion previously filed by AMD in the AMD litigation, which has settled. The plaintiffs in the coordinated actions also moved for certification of a class of members who purchased certain personal computers containing products sold by Intel. In July 2010, the Special Master issued a Report and Recommendation (Class Report) denying the motion to certify a class. The plaintiffs filed objections to the Special Master s Class Report, and a hearing on these objections was held in March 2011. All California class actions have been consolidated to the Superior Court of California in Santa Clara County. The plaintiffs in the California actions have moved for class certification, which we are in the process of opposing. At our request, the court in the California actions has agreed to delay ruling on this motion until after the Delaware District Court rules on the similar motion in the coordinated actions. We dispute the class-action claims and intend to defend the lawsuits vigorously. Because the outcome or range of outcomes in this matter cannot be reasonably estimated, no estimate is provided.

Lehman Matter

In November 2009, representatives of Lehman Brothers Holdings Inc. (Lehman) advised us informally that the Lehman bankruptcy estate was considering a claim against us arising from a 2008 contract between Intel and Lehman Brothers OTC Derivatives Inc. (Lehman OTC). Under the terms of the 2008 contract, Intel prepaid $1.0 billion to Lehman OTC, in exchange for which Lehman OTC was required to purchase and deliver to Intel the number of shares of Intel common stock that could be purchased for $1.0 billion at the volume-weighted average price for the period August 26, 2008 to September 26, 2008. Lehman OTC s performance under the contract was secured by $1.0 billion of cash collateral. Under the terms of the contract, Lehman OTC was obligated to deliver approximately 50 million shares of our common stock to us on September 29, 2008. Lehman failed to deliver any shares of our common stock, and we exercised our right to setoff against the $1.0 billion collateral. Lehman OTC has not initiated any action against us to date, but in February 2010, Lehman served a subpoena on us in connection with this transaction. In September 2010, we entered into an agreement with Lehman that tolls any applicable statutes of limitations for 90 days and precludes the parties from commencing any formal proceedings to prosecute any claims against each other in any forum during that period. In October 2010, Lehman demanded that Intel pay it at least $417 million. We continue to believe that we acted appropriately under our agreement with Lehman OTC, and we intend to defend any claim to the contrary. We have agreed to extend the tolling agreement twice, and it is now in effect through May 2011.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Frank T. Shum v. Intel Corporation, Jean-Marc Verdiell, and LightLogic, Inc.

We acquired LightLogic, Inc. in May 2001. Frank Shum subsequently sued us, LightLogic, and LightLogic s founder, Jean-Marc Verdiell, claiming that much of LightLogic s intellectual property is based on alleged inventions that Shum conceived while he and Verdiell were partners at Radiance Design, Inc. Shum has alleged claims for fraud, breach of fiduciary duty, fraudulent concealment, and breach of contract. Shum also seeks alleged correction of inventorship of seven patents acquired by us as part of the LightLogic acquisition. In January 2005, the U.S. District Court for the Northern District of California denied Shum s inventorship claim, and thereafter granted our motion for summary judgment on Shum s remaining claims. In August 2007, the U.S. Court of Appeals for the Federal Circuit vacated the District Court s rulings and remanded the case for further proceedings. In October 2008, the District Court granted our motion for summary judgment on Shum s claims for breach of fiduciary duty and fraudulent concealment, but denied our motion on Shum s remaining claims. A jury trial on Shum s remaining claims took place in November and December 2008. In pre-trial proceedings and at trial, Shum requested monetary damages against the defendants in amounts ranging from $31 million to $931 million, and his final request to the jury was for as much as $175 million. Following deliberations, the jury was unable to reach a verdict on most of the claims. With respect to Shum s claim that he is the proper inventor on certain LightLogic patents now assigned to us, the jury agreed with Shum on some of those claims and was unable to reach a verdict regarding the remaining claims. In April 2009, the court granted defendants motions for judgment as a matter of law. Shum appealed that ruling to the U.S. Court of Appeals for the Federal Circuit, which heard oral arguments in August 2010 and affirmed the trial court s orders in favor of Intel in December 2010. In January 2011, Shum petitioned the Federal Circuit for a re-hearing and/or re-hearing en banc. In February 2011, the Federal Circuit denied Shum s request. The deadline for Shum to petition the U.S. Supreme Court is May 21, 2011. We will continue to defend the lawsuit vigorously.

Note 25: Operating Segment Information

Our operating segments in effect as of April 2, 2011 include:

- PC Client Group
- Data Center Group
- Intel Mobile Communications
- Embedded and Communications Group
- Netbook and Tablet Group
- Digital Home Group
- Ultra-Mobility Group
- McAfee
- Wind River Software Group
- Software and Services Group
- Non-Volatile Memory Solutions Group

In the first quarter of 2011, we formed the Netbook and Tablet Group, which includes microprocessors and related chipsets designed for the netbook and tablet market segments, and we divested the Digital Health Group (for further

information see Note 15: Divestitures). Prior-period amounts have been adjusted retrospectively to reflect these operating segment changes as well as other minor reorganizations. Additionally, in the first quarter of 2011, we formed the Intel Mobile Communications and McAfee operating segments as a result of acquisitions (for further information see Note 14: Acquisitions).

The Chief Operating Decision Maker (CODM) is our President and Chief Executive Officer. The CODM allocates resources to and assesses the performance of each operating segment using information about its revenue and operating income (loss).

Our PC Client Group and our Data Center Group are reportable operating segments. We aggregate and disclose the financial results of the following non-reportable operating segments within other Intel architecture operating segments : Intel Mobile Communications, Embedded and Communications Group, Netbook and Tablet Group, Digital Home Group, and Ultra-Mobility Group. We also aggregate and disclose the financial results of the following non-reportable operating segments within software and services operating segments : McAfee, Wind River Software Group, and Software and Services Group. Each of these aggregated operating segments does not meet the quantitative thresholds to qualify as reportable operating segments; however, we have elected to disclose the aggregation of these non-reportable operating segments. Revenue for our reportable and aggregated non-reportable operating segments is primarily related to the following product lines:

PC Client Group. Includes microprocessors and related chipsets and motherboards designed for the notebook and desktop (including high-end enthusiast PCs) market segments; and wireless connectivity products.

Data Center Group. Includes microprocessors and related chipsets and motherboards designed for the server, workstation, and storage computing market segments; and wired network connectivity products.

Other Intel architecture operating segments. Includes mobile phone components such as baseband processors, radio frequency transceivers, and power management chips; microprocessors and related chipsets designed for embedded applications; microprocessors and related chipsets designed for the netbook and tablet market segments; products designed for the consumer electronics market segment; and products designed for the handheld market segment.

INTEL CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS Unaudited (Continued)

Software and services operating segments. Includes software products for endpoint security, system security, consumer security, network security, and risk and compliance from our McAfee business; software optimized products for the embedded and handheld market segments; and software products and services that promote Intel® architecture as the platform of choice for software development.

We have sales and marketing, manufacturing, finance, and administration groups. Expenses for these groups are generally allocated to the operating segments, and the allocated expenses are included in the operating results reported below.

The All other category includes revenue, expenses, and charges such as:

- results of operations from our Non-Volatile Memory Solutions Group that includes NAND flash memory products for use in a variety of devices;
- a portion of profit-dependent compensation and other expenses not allocated to the operating segments;
- divested businesses for which discrete operating results are not reviewed by our CODM;
- results of operations of seed businesses that support our initiatives; and
- acquisition-related costs, including amortization and any impairment of acquisition-related intangibles and goodwill.

The CODM does not 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 gains and losses from equity investments, interest and other income, 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. The accounting policies for segment reporting are the same as for Intel as a whole.

Segment information is summarized as follows:

	Three Months Ended	
(In Millions)	April 2, 2011	March 27, 2010
Net revenue		
PC Client Group		
Microprocessor revenue	$ 6,823	$ 5,692
Chipsets, motherboards, and other revenue	1,798	1,683
	8,621	**7,375**
Data Center Group		
Microprocessor revenue	2,061	1,552
Chipsets, motherboards, and other revenue	403	319
	2,464	**1,871**
Other Intel architecture operating segments	**1,149**	**674**
Software and services operating segments	**240**	**58**
All other	**373**	**321**
Total net revenue	**$ 12,847**	**$ 10,299**
Operating income (loss)		
PC Client Group	$ 3,543	$ 3,087
Data Center Group	1,222	833
Other Intel architecture operating segments	(36)	26

Software and services operating segments	(52)	(44)
All other	(519)	(454)
Total operating income	**$ 4,158**	**$ 3,448**

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview. Discussion of our business and overall analysis of financial and other highlights affecting the company in order to provide context for the remainder of MD&A.

Strategy. Our overall strategy.

Critical Accounting Estimates. Accounting estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts.

Results of Operations. An analysis of our financial results comparing the three months ended April 2, 2011 to the three months ended March 27, 2010. In the first quarter of 2011, we formed the Netbook and Tablet Group (NTG), which includes microprocessors and related chipsets designed for the netbook and tablet market segments. NTG results were previously included in the results of the PC Client Group and are now included in the other Intel architecture operating segments category. The analysis of our operating segment results of operations reflects this reorganization and prior-period amounts have been adjusted retrospectively.

Business Outlook. Our expectations for selected financial items for the second quarter of 2011 and the 2011 full year.

Liquidity and Capital Resources. An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition and potential sources of liquidity.

Fair Value of Financial Instruments. Discussion of the methodologies used in the valuation of our financial instruments.

The various sections of this MD&A contain a number of forward-looking statements. Words such as expects, goals, plans, believes, continues, may, will, and variations of such words and similar expressions are intended to identi such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Such statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in the Business Outlook section and in Risk Factors in Part II, Item 1A of this Form 10-Q. Our actual results may differ materially, and these forward-looking statements do not reflect the potential impact of any divestitures, mergers, acquisitions, or other business combinations that had not been completed as of May 9, 2011.

Overview

Our results of operations were as follows:

(Dollars in Millions)	Q1 2011	Q4 2010	Q1 2010
Net revenue	$ 12,847	$ 11,457	$ 10,299
Gross margin	$ 7,885	$ 7,406	$ 6,529
Gross margin percentage	61.4%	64.6%	63.4%
Operating income	$ 4,158	$ 4,023	$ 3,448
Net income	$ 3,160	$ 3,180	$ 2,442

The first quarter of 2011 was another record quarter for revenue and earnings per share. In the first quarter of 2011, we completed the acquisitions of McAfee, Inc. and the Wireless Solutions (WLS) business of Infineon, which combined contributed approximately $500 million to our first quarter revenue. Our 2nd generation Intel® Core™ processor products (formally code-named Sandy Bridge) are ramping quickly, which resulted in higher microprocessor average selling prices in the first quarter of 2011 compared to the fourth quarter of 2010. We saw strong consumer sales in emerging markets and strong demand for both enterprise servers and clients in the first quarter of 2011; however, consumer demand in the U.S. and Western Europe was soft. Compared to the first quarter of 2010, we realized double digit revenue growth across every major product segment and across every geographic region. We believe we are on track for another year of revenue growth over 20 percent and double digit earnings

growth.

Gross margin in the first quarter of 2011 declined 3.2 percentage points compared to the fourth quarter of 2010 due to higher 22nm start-up costs, higher platform (microprocessor and chipset) unit costs, and the impact of the acquisitions. These impacts were partially offset by the benefit from higher platform average selling prices compared to the fourth quarter. The charges to repair and replace materials and systems impacted by a design issue related to our Intel® 6 Series Express Chipset family negatively impacted our gross margin by approximately 3 percentage points in both the fourth quarter of 2010 and first quarter of 2011. We rapidly identified, fixed, and recovered from the chipset design issue (see Note 19: Chipset Design Issue in Part I, Item 1 of this Form 10-Q).

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

We began 2011 with great momentum and we expect to add to that momentum as we invest in developing new products for smartphones and tablets, such as the launch of the Intel® Atom™ processor Z670 based platform, formerly codenamed Oak Trail, designed specifically for tablets. We continue to deliver improvements in our product offerings through our tick-tock technology development cadence and expect to begin production of our 22nm process technology microprocessors (codenamed Ivy Bridge) by the end of 2011. Ivy Bridge also introduces the first three-dimensional transistor design called Tri-Gate, which is expected to improve performance and energy efficiency compared to the existing two-dimensional transistor structure. Our forecast for capital spending this year has increased from our previous estimate of $9.0 billion to $10.2 billion. The increase in our capital spending outlook will allow us to widen our process technology lead as we focus on both 22nm and 14nm process technology, including building a larger scale 14nm fabrication facility that will allow us to quickly ramp our leading-edge products. We expect incremental opportunities in unit growth and product mix as a result of these investments. Our capital spending strategy also enables us to integrate more features and functionality on leading edge process technology that can result in performance, cost, and power efficiency advantages.

The cash-generating power of our business was evident in the first quarter of 2011 with $4.0 billion of cash from operations. From a financial condition perspective, we ended the first quarter of 2011 with an investment portfolio of $11.5 billion, consisting of cash and cash equivalents, short-term investments, and marketable debt instruments included in trading assets. During the first quarter of 2011, net cash used for acquisitions was $8.2 billion, we purchased $2.7 billion in capital assets, repurchased $4.0 billion of common stock through our common stock repurchase program, and returned $1.0 billion to stockholders through dividends (a per share increase of 15% from the fourth quarter).

Strategy

Our goal is to be the preeminent computing solutions company that powers the worldwide digital economy. We believe that the proliferation of the Internet and cloud computing have driven fundamental changes in the computing industry. We are transforming from a company with a primary focus on the design and manufacture of semiconductor chips for PCs and servers to a computing company that delivers complete solutions in the form of hardware and software platforms and supporting services. The number and variety of devices connected to the Internet is growing, and computing is becoming an increasingly personal experience. End users value consistency across devices that connect seamlessly and effortlessly to the Internet and to each other. We will help to enable this experience by innovating around three pillars of computing: energy-efficient performance, connectivity, and security.

Energy-Efficient Performance. We are focusing on improved energy-efficient performance for computing and communications systems and devices. Improved energy-efficient performance involves balancing higher performance with lower power consumption.

Connectivity. We are positioning our business to take advantage of the growth in devices that compute and connect to the Internet. In the first quarter of 2011, we acquired the WLS business of Infineon. This acquisition enables us to offer a portfolio of products that covers a broad range of wireless connectivity options by combining the Intel® WiFi and Intel® WiMAX technologies with WLS 2G and 3G technologies, and creates a combined path to accelerate industry adoption of 4G LTE.

Security. Our goal is to enhance security features through a combination of hardware and software solutions. This may include identity protection and fraud deterrence; detection and prevention of malware; securing data and assets; as well as system recovery and enhanced security patching. In the first quarter of 2011, we acquired McAfee. We believe this acquisition accelerates and enhances our hardware and software security solutions, improving the overall security of our platforms.

To succeed in the changing computing environment, we have the following key objectives:

Strive to ensure that Intel technology remains the best choice for the PC as well as cloud computing and the data center.

Expand platforms into adjacent market segments to bring compelling new solutions to the smartphone, the tablet, the TV, the car, and the embedded world.

Enable devices that connect to the Internet and to each other to create a continuum of personal computing. This continuum would give consumers a set of secure, consistent, and personalized computing experiences.
Positively impact the world through our actions and the application of our energy-efficient technology.

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

We will use our core assets to meet these objectives. Our core assets include our silicon and process technology, our architecture and platforms, our global presence, our strong relationships across the industry, and our brand recognition. We believe that applying these core assets to our key focus areas provides us with the scale, capacity, and global reach to establish new technologies and respond to customers needs quickly. Some of our core assets and key focus areas are:

Silicon and Manufacturing Technology Leadership. We have long been a leader in silicon process technology and manufacturing, and we aim to continue our lead through investment and innovation in this critical area. We drive a regular two-year upgrade cycle introducing a new microarchitecture approximately every two years and ramping the next generation of silicon process technology in the intervening years. We refer to this as our tick-tock technology development cadence. As we continue to drive Moore s Law over the next several years, we believe that the value of this leadership will increase. We aim to have the best process technology, and unlike most semiconductor companies, we primarily manufacture our products in our own facilities. This allows us to optimize performance, reduce our time to market, and scale new products more rapidly.

Architecture and Platforms. We are now developing a wide range of solutions for devices that span the computing continuum, from PCs and smartphones to smart TVs and in-vehicle infotainment systems and beyond. Users want computing experiences that are consistent and devices that are interoperable. Users and developers value consistency of architecture, which provides a common framework that allows for reduced time to market, with the ability to leverage technologies across multiple form factors. We believe that we can meet the needs of both users and developers by offering Intel® architecture-based computing solutions across the computing continuum. We continue to invest in improving Intel architecture so that we can deliver increased value to our customers in existing market segments and also expand the capabilities of the architecture to meet end-user and customer needs in adjacent market segments. Increasingly, we are delivering our architecture in the form of platforms. Platforms include not only the microprocessor, but other critical hardware and software ingredients that are necessary to create computing solutions. We are expanding our platform capabilities with connectivity solutions, new types of user interfaces, new features and capabilities, and complementary software.

Software. We enable and advance the computing ecosystem by providing development tools and support to help software developers create software applications and operating systems that take advantage of our platforms. We seek to expedite growth in various market segments, such as the embedded and handheld market segments, through our software offerings. Additionally, we have collaborated with other companies to develop software platforms optimized for our Intel® Atom™ processors and that support multiple hardware architectures as well as multiple operating systems.

Customer Orientation. Our strategy focuses on developing our next generation of products based on the needs and expectations of our customers. In turn, our products help enable the design and development of new form factors and usage models for businesses and consumers. We offer platforms that incorporate various components designed and configured to work together to provide an optimized solution compared to components that are used separately. Additionally, we promote industry standards that we believe will yield innovation and improved technologies for users.

Strategic Investments. We make investments in companies around the world that we believe will generate financial returns, further our strategic objectives, and support our key business initiatives. Our investments, including those made through our Intel Capital program, generally focus on investing in companies and initiatives to stimulate growth in the digital economy, create new business opportunities for Intel, and expand global markets for our products.

Stewardship. We are committed to developing energy-efficient technology solutions that can be used to address major global problems while reducing our environmental impact. We are also committed to helping transform education globally through our technology, program, and policy leadership, as well as funding through the Intel Foundation. In addition, we strive to cultivate a work environment where engaged, energized employees can

thrive in their jobs and in their communities.

Our continued investment in developing our assets and execution on key focus areas will strengthen our competitive position as we enter and expand into new market segments. We believe that these new market segments will result in demand that is incremental to that of microprocessors designed for notebook and desktop computers. We also believe that increased Internet traffic and use of cloud computing create a need for greater server infrastructure, including server products optimized for energy-efficient performance and virtualization.

Critical Accounting Estimates

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

- the valuation of non-marketable equity investments and the determination of other-than-temporary impairments, which impact gains (losses) on equity method investments, net, or gains (losses) on other equity investments, net when we record impairments;

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

- the assessment of recoverability of long-lived assets (property, plant and equipment; goodwill; and identified intangibles), which impacts gross margin or operating expenses when we record asset impairments or accelerate their depreciation or amortization;
- the recognition and measurement of current and deferred income taxes (including the measurement of uncertain tax positions), which impact our provision for taxes;
- the valuation of inventory, which impacts gross margin; and
- the recognition and measurement of loss contingencies, which impact gross margin or operating expenses when we recognize a loss contingency, revise the estimate for a loss contingency, or record an asset impairment.

Below, we discuss these policies further, as well as the estimates and judgments involved.

Non-Marketable Equity Investments

We regularly invest in non-marketable equity instruments of private companies, which range from early-stage companies that are often still defining their strategic direction to more mature companies with established revenue streams and business models. The carrying value of our non-marketable equity investment portfolio, excluding equity derivatives, totaled $2.7 billion as of April 2, 2011 ($2.6 billion as of December 25, 2010). The majority of this balance as of April 2, 2011 was concentrated in companies in the flash memory market segment. Our flash memory market segment investments include our investment in IM Flash Technologies, LLC (IMFT) and IM Flash Singapore, LLP (IMFS) of $1.4 billion ($1.5 billion as of December 25, 2010). For further information, see Note 10: Equity Method and Cost Method Investments in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q.

Our non-marketable equity investments are recorded using the cost method or the equity method of accounting, depending on the facts and circumstances of each investment. Our non-marketable equity investments are classified within other long-term assets on the consolidated condensed balance sheets.

Non-marketable equity investments are inherently risky, and their success is dependent on product development, market acceptance, operational efficiency, other key business factors, and the ability of the investee companies to raise additional funds in financial markets that can be volatile. The companies could fail or not be able to raise additional funds when needed, or they may receive lower valuations with less favorable investment terms than previous financings. These events could cause our investments to become impaired. In addition, financial market volatility could negatively affect our ability to realize value in our investments through liquidity events such as initial public offerings, mergers, and private sales. For further information about our investment portfolio risks, see Risk Factors in Part II, Item 1A of this Form 10-Q.

We determine the fair value of our non-marketable equity investments quarterly for disclosure purposes; however, the investments are recorded at fair value only if an impairment charge is recognized. 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, such as projected revenues, earnings, and comparable performance multiples. 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 may include one or multiple discounted cash flow scenarios and requires the following significant estimates for the investee: revenue, based on assumed market segment size and assumed market segment share; expenses, capital spending, and other costs; and discount rates based on the risk profile of comparable companies. Estimates of market segment size, market segment share, expenses, capital spending, and other costs are developed using historical data and available market data. The valuation of our 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, and the terms of the investees issued interests.

For non-marketable equity investments, the measurement of fair value requires significant judgment and includes quantitative and qualitative analysis of identified events or circumstances that impact the fair value of the investment, such as:

the investee s revenue and earnings trends relative to pre-defined milestones and overall business prospects;
the technological feasibility of the investee s products and technologies;
the general market conditions in the investee s industry or geographic area, including adverse regulatory or economic changes;
factors related to the investee s ability to remain in business, such as the investee s liquidity, debt ratios, and the rate at which the investee is using its cash; and
the investee s receipt of additional funding at a lower valuation.

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

If the fair value of an investment is below our carrying value, we determine if the investment is other than temporarily impaired based on our quantitative and qualitative analysis, which includes assessing the severity and duration of the impairment and the likelihood of recovery before disposal. If the investment is considered to be other than temporarily impaired, we write down the investment to its fair value. Impairments of non-marketable equity investments were $14 million in the first quarter of 2011. Over the past 12 quarters, including the first quarter of 2011, impairments of non-marketable equity investments ranged from $11 million to $896 million per quarter. This range included impairments of $896 million during the fourth quarter of 2008, primarily related to a $762 million impairment charge on our investment in Clearwire Communications, LLC.

IMFT/IMFS

IMFT and IMFS are variable interest entities that are designed to manufacture and sell NAND products to Intel and Micron Technology, Inc. at manufacturing cost. We determine the fair value of our investment in IMFT/IMFS using the income approach based on a weighted average of multiple discounted cash flow scenarios of our NAND Solutions Group business, which requires the use of unobservable inputs. Unobservable inputs that require us to make our most difficult and subjective judgments are the estimates for projected revenue and discount rate. Changes in management estimates for these unobservable inputs have the most significant effect on the fair value determination. We have not had an other-than-temporary impairment of our investment in IMFT/IMFS.

Long-Lived Assets

Property, Plant and Equipment

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

Impairments are determined for groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. In addition, as we make manufacturing process conversions and other factory planning decisions, we must make subjective judgments regarding the remaining useful lives of assets, primarily process-specific semiconductor manufacturing tools and building improvements. When we determine that the useful lives of assets are shorter than we had originally estimated, we accelerate the rate of depreciation over the assets new, shorter useful lives. Over the past 12 quarters, including the first quarter of 2011, impairments and accelerated depreciation of long-lived assets ranged from $10 million to $95 million per quarter.

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is allocated to our reporting units based on relative fair value of the future benefit of the purchased operations to our existing business units as well as the acquired business unit.

We perform an annual review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the carrying value of the recorded goodwill is impaired. Our impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. Reporting units may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. Our reporting units are consistent with the operating segments identified in Note 25: Operating Segment

Information in Part I, Item 1 of this Form 10-Q.

If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, we would record an impairment loss equal to the difference.

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

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. Our impairment review process uses the income method to estimate the reporting unit s fair value and is based on a discounted future cash flow approach that uses the following reporting unit estimates: revenue, based on assumed market segment growth rates and Intel s assumed market segment share; estimated costs; and appropriate discount rates based on the reporting units weighted average cost of capital as determined by considering the observable weighted average cost of capital of comparable companies. Our estimates of market segment growth, our market segment share and costs are based on historical data, various internal estimates and a variety of external sources, and are developed as part of our routine long-range planning process. The same estimates are also used in planning for our long-term manufacturing and assembly and test capacity needs as part of our capital budgeting process and for both long-term and short-term business planning and forecasting. We test the reasonableness of the inputs and outcomes of our discounted cash flow analysis against available comparable market data. In determining the carrying value of the reporting unit, we must include an allocation of our manufacturing and assembly and test assets because of the interchangeable nature of our manufacturing and assembly and test capacity. This allocation is based on each reporting unit s relative percentage utilization of our manufacturing and assembly and test assets.

During the fourth quarter of each of the prior two fiscal years, we completed our annual impairment reviews and concluded that goodwill was not impaired in either of these years.

Identified Intangibles

We make judgments about the recoverability of purchased finite lived intangible assets whenever events or changes in circumstances indicate that an impairment may exist. Recoverability of finite lived intangible assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. We review indefinite lived intangible assets for impairment quarterly and whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of indefinite lived intangible assets is measured by comparison of the carrying amount of the asset to the future discounted cash flows the asset is expected to generate. If it is determined that an individual asset is impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

The assumptions and estimates used to determine future values and remaining useful lives of our intangible and other long-lived assets are complex and subjective. They can be affected by various factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our forecasts for specific product lines. Based on our impairment reviews of our intangible assets, we have not recognized any impairment charges in 2011 or 2010.

Income Taxes

We must make estimates and judgments in determining the provision for taxes for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits, and deductions, and in the calculation of certain tax assets and liabilities that arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties related to uncertain tax positions. Significant changes in these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover the deferred tax assets recorded on our consolidated condensed balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely. Recovery of a portion of our deferred tax assets is impacted by management s plans with respect to holding or disposing of certain investments; therefore, changes in management s plans with respect to holding or disposing of investments could affect our future provision for taxes.

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

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If we determine that a tax position will more likely than not be sustained on audit, the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors such as changes in facts or circumstances, changes in tax law, new audit activity, and effectively settled issues. Determining whether an uncertain tax position is effectively settled requires judgment. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Inventory

The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The estimate of future demand is compared to work-in-process and finished goods inventory levels to determine the amount, if any, of obsolete or excess inventory. As of April 2, 2011, we had total work-in-process inventory of $1.8 billion and total finished goods inventory of $1.7 billion. The demand forecast is included in the development of our short-term manufacturing plans to enable consistency between inventory valuation and build decisions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of the customer base, the stage of the product life cycle of our products, consumer confidence, and customer acceptance of our products, as well as an assessment of the selling price in relation to the product cost. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to write off inventory, which would negatively impact our gross margin.

1,448

$
918

$
8,100

$
33,159

$
46,103

William J. Deutsch, Jr.

$
6,000

$
1,351

$
857

$
6,750

$
33,494

$
48,452

James J. Brennan

$
14,259

$
1,577

$
994

$
4,445

$
34,257

$
55,532

(i) Includes use of an automobile or an automobile allowance, and in the case of Messrs. Gasior, Cloutier and Brennan, club dues.

(ii) Consists of premiums paid by the Company during the fiscal year with respect to additional short- and long-term disability insurance for each named executive officer. Certain amounts were paid by the executive and reimbursed by the Company under employment agreement provisions that reduce, on a dollar-for-dollar basis, the Bank’s obligations under such executive’s employment agreement in the event of the executive’s death or disability by the

amount of insurance proceeds received by the executive's named beneficiary.

(iii) Reflects reimbursement for income and employment taxes incurred by the executive as a result of the insurance premiums paid by the executive and reimbursed by the Company. See note (ii) above and discussion below for additional information.

(iv) Includes the Bank's contribution to the executive's ESOP account plus any amounts reallocated as a result of forfeitures by terminated ESOP participants. The ESOP was terminated on March 29, 2017.

Grants of Plan-Based Awards

The following table sets forth for the year ended December 31, 2017 certain information as to grants of plan-based awards for the Chief Executive Officer and the other Named Executive Officers under the terms of any applicable cash incentive compensation plans or the 2006 EIP. For the year ended December 31, 2017, cash payments were paid in April 2018 in the amounts listed in the "Summary Compensation Table."

Name		Estimated Future/Possible Payouts Under Non-Equity Incentive Plan Awards		
		Threshold ($)	Target ($)	Maximum ($)
F. Morgan Gasior	(1)	$—	$206,352	$206,352
Paul A. Cloutier	(1)	$—	$56,997	$56,997
John G. Manos	(2)	$—	$123,110	$123,110
William J. Deutsch, Jr.	(3)	$—	$165,000	$165,000
James J. Brennan	(4)	$—	$—	$—

(1) Messrs. Gasior and Cloutier are eligible to receive a cash incentive plan payment of up to 50% and 20% of base salary, respectively, based on the achievement of weighted performance goals. See "Conclusions for Year Ended December 31, 2017 - Review of the Chief Executive Officer" and "Conclusions for Year Ended December 31, 2017 - Review of the Chief Financial Officer" in the Compensation Discussion and Analysis above for additional detail.

(2) Mr. Manos is eligible to receive a cash incentive plan payment of up to 50% of base salary based on the achievement of Business Plan objectives for 2017. Final incentive earned is subject to asset quality adjustments. The target amount provided for Mr. Manos is a representative amount that would be earned under the 2017 plan if fiscal 2017 budgets were achieved with no discretionary adjustment.

(3) Mr. Deutsch is eligible to receive a cash incentive plan payment up to a maximum of $165,000 based on the achievement of Business Plan objectives for 2017. Final incentive earned is subject to risk-based deferrals and asset quality adjustments. The target amount provided for Mr. Deutsch is a representative amount that would be earned under the plan if fiscal budgets were achieved with no discretionary adjustment.

(4) Mr. Brennan was not eligible for and did not participate in any cash incentive plans during fiscal 2017.

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Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information concerning unvested shares of restricted stock at December 31, 2017 held by the individuals named in the summary compensation table:

Name	Stock Awards			
	# of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: # of Unearned Shares, Units or Other Rights That Have Not Vested[(1)]	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)[(2)]
F. Morgan Gasior	—	$ —	—	$ —
Paul A. Cloutier	—	$ —	—	$ —
John G. Manos	—	$ —	—	$ —
William J. Deutsch, Jr.	—	$ —	940	$ 14,420
James J. Brennan	—	$ —	—	$ —

(1) The amount for Mr. Deutsch reflects the remaining unearned shares of a performance-based equity award granted on May 14, 2013, which was eligible to be earned if predefined annual performance goals were achieved prior to a March 31, 2016 final performance determination date. On the final performance determination date, the Human Resources Committee approved the extension of the performance period for this award through December 31, 2017. In April 2018, the Human Resources Committee approved the achievement of performance that resulted in 694 shares being vested and 246 shares being forfeited.

(2) The market value of shares is based on a closing stock price of $15.34 on December 31, 2017.

Option Exercises and Stock Vested During 2017

The following table reflects option awards exercised by the named executive officers during 2017. No stock awards vested during 2017.

Name	Option Awards	
	# of Shares Acquired on Exercise	Value Realized Upon Exercise ($) [(1)]
F. Morgan Gasior	300,000	$718,600
Paul A. Cloutier	151,000	$372,630
John G. Manos	95,834	$223,293
William J. Deutsch, Jr.	10,000	$20,300
James J. Brennan	165,668	$337,963

(1) For options, the value realized on exercise is equal to the difference between the market price of the underlying shares at exercise and the exercise price of the options.

Potential Payments upon Termination or Change of Control

The following table sets forth information concerning potential payments and benefits under the Company's compensation programs and benefit plans to which the Named Executive Officers would be entitled upon a termination of employment as of December 31, 2017. As is more fully described on the following page, the named executive officers entered into employment agreements with the Company and/or the Bank, as applicable (each, an "Employment Agreement"), which provide for payments and benefits to a terminating executive officer following a termination other than for "cause" or by resignation. Except for the payments and benefits provided by the Employment Agreements, all other payments and benefits provided to any Named Executive Officer upon termination of his employment are the same as the payments and benefits provided to other eligible executives of the Bank.

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Executive	Potential Payments Upon Termination or Change of Control	Termination by the Bank			Other Types of Termination			Change of Control (3)
		For Cause	For Disability (1)	Without Cause (2)	By Resignation	For Good Reason (2)	Upon Death (1)	
F. Morgan Gasior	Cash payments	$—	$1,073,330	$1,466,345	$—	$1,466,345	$1,073,330	$1,466,345
	Continued Benefits	—	17,276	21,446	—	21,446	17,276	21,446
Paul A. Cloutier	Cash payments	$—	$730,576	$1,014,548	$—	$1,014,548	$730,576	$1,014,548
	Continued Benefits	—	28,678	35,600	—	35,600	28,678	35,600
John G. Manos	Cash payments	$—	$692,853	$1,101,020	$—	$1,101,020	$692,853	$704,725
	Continued Benefits	—	29,251	36,312	—	36,312	29,251	36,312
William J. Deutsch, Jr.	Cash payments	$—	$663,024	$663,024	$—	$663,024	$663,024	$663,024
	Accelerated Equity Awards	—	14,420	14,420	—	14,420	14,420	14,420
	Continued Benefits	—	14,752	14,752	—	14,752	14,752	14,752
James J. Brennan	Cash payments	$—	$456,611	$1,109,383	$—	$1,109,383	$456,611	$1,109,383
	Continued Benefits	—	—	—	—	—	—	—

(1) For each Named Executive Officer, except Mr. Deutsch, cash payments include an amount equal to the average cash incentive compensation paid during the preceding two years prorated for the year of termination, prorated employer matching 401(k) contribution for the year of termination, and the base salary the executive would have received from the date of termination through the end of his employment period. The cash payments for Mr. Deutsch include a prorated annual cash incentive compensation for the year of termination, prorated employer matching 401(k) contribution for the year of termination, and the base salary the executive would have received from the date of termination through the end of the executive's employment period. The intrinsic value of accelerated equity awards for Mr. Deutsch is based on the closing stock price on December 31, 2017 of $15.34. Continued benefits reflect the incremental cost of core benefits to the Company during the executive's remaining employment period based on actual cost for 2017, except for Mr. Brennan, whose agreement was amended on July 27, 2017 to exclude continued benefits post-termination. Excludes any reduction in benefits as a result of disability insurance or federal social security disability payments.

(2) For each Named Executive Officer, except Mr. Deutsch, cash payments include an amount equal to the average cash incentive compensation paid during the preceding two years prorated for the year of termination, prorated employer matching 401(k) contribution, and three times the executive’s three-year average cash compensation. The cash payments for Mr. Deutsch include a prorated annual cash incentive compensation for the year of termination, prorated employer matching 401(k) contribution for the year of termination, and the base salary the executive would have received from the date of termination through the end of the executive's employment period. The intrinsic value of accelerated equity awards for Mr. Deutsch is based on the closing stock price on December 31, 2017 of $15.34. Continued benefits reflect the incremental cost of core benefits to the Company for 36 months based on the actual cost for 2017, except for Mr. Deutsch, whose continued benefits reflect the incremental cost of core benefits to the Company during the executive's remaining employment period, and Mr. Brennan, whose agreement was amended on July 27, 2017 to exclude continued benefits post-termination.

(3) The payments reflected in this column assume the executive terminated for good reason in connection solely with a change of control, if applicable. For each Named Executive Officer, except Mr. Deutsch, cash payments include an amount equal to the average cash incentive compensation paid during the preceding two years prorated for the year of termination, prorated employer matching 401(k) contribution, and three times the executive’s three-year average cash compensation. The cash payments for Mr. Deutsch include a prorated annual cash incentive compensation for the year of termination, prorated employer matching 401(k) contribution for the year of termination, and the base salary the executive would have received from the date of termination through the end of the executive's employment period. The intrinsic value of accelerated equity awards for Mr. Deutsch is based on the closing stock price on December 31, 2017 of $15.34. Continued benefits reflect the incremental cost of core benefits to the

Company for 36 months based on the actual cost for 2017, except for Mr. Deutsch, whose continued benefits reflect the incremental cost of core benefits to the Company during the executive's remaining employment period, and Mr. Brennan, whose agreement was amended on July 27, 2017 to exclude continued benefits post-termination. Executive severance benefits for Messrs. Manos and Deutsch are reduced to avoid constituting an “excess parachute payment” under Section 280G of the Internal Revenue Code. Assuming a December 31, 2017 good reason termination upon a change in control, the cash payments reflected above for Mr. Manos has been reduced by $396,295 to comply with this requirement.

Accrued Pay and Regular Retirement Benefits. The amounts shown in the table above do not include payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. These include:

- Accrued but unpaid salary and vacation pay.
- Distributions of plan balances under the Bank’s 401(k) plan and its ESOP. See “401(k) Plan” and “Employee Stock Ownership Plan and Trust” for an overview of the 401(k) and the ESOP.

Employment Agreements. The Bank’s employment agreements with Messrs. Gasior, Cloutier, Manos, Deutsch and Brennan were amended and restated in May 2008, and were amended again in December 2012 principally to ensure compliance with Section 409A of the Internal Revenue Code. In May 2013, the Bank entered into an amended and restated employment agreement with Mr. Deutsch, which was substantially similar to his prior agreement with the exception of a change in term from 24 months to 36 months and a limit on perquisites and post-employment health insurance. In June 2017, the Bank approved amendments to the Bank’s existing employment agreements for Messrs. Gasior, Cloutier, Manos, Deutsch and Brennan which included, in part, changing the annual review process completion date from March 31st to May 31st each calendar year; removing disability and life insurance from the definition of “Core Plans,” and making disability and life insurance unavailable as post termination

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benefits; clarifying the term "Average Annual Compensation" as used in the employment agreements for Messrs. Gasior, Cloutier, Manos and Brennan; memorializing the cap that has been historically imposed on the dues reimbursement provided to Messrs. Gasior, Cloutier, and Brennan; revising Mr. Gasior's employment agreement to provide that he will have access to health insurance until he qualifies for Medicare provided that he pays the annual premiums at his expense at the COBRA-rate; revising the agreements for Messrs. Cloutier, Manos, and Deutsch to provide for a cash insurance stipend if the Bank's insurer will not allow them to remain in the Bank's health insurance plan after their employment ends or until they become eligible for other group health insurance or Medicare; revising Mr. Brennan's agreement to remove the post-terminated health insurance provision, to permit reductions in Mr. Brennan's base salary with his prior written consent and defining the term "Full-time Employment" and revising the indemnification provision in the employment agreements to provide that indemnification will be made by the Bank under the laws of the State of Maryland, which also govern indemnification by the Company. Each employment agreement has an initial term of 36 months that can be extended each year for an additional year, at the discretion of the Board of Directors.

Under the employment agreements, the Bank will pay the executive officers the base salary as reflected in the Bank's payroll records, subject to discretionary increases by the Board of Directors. The 2018 base salaries for Messrs. Gasior, Cloutier, Manos, Deutsch and Brennan are $450,000, $290,682, $251,143, $232,943 and $173,913, respectively. The employment agreements provide that the base salary may be increased but may not be decreased without the executive officer's prior written consent. The employment agreements also provide that the executive officer will receive the use of an automobile or an automobile allowance and in the case of Messrs. Gasior, Cloutier and Brennan, the payment of designated club dues, provided that, in a given year, these payments may not, in the aggregate, exceed 10% of the executive officer's cash compensation. The employment agreements further provide that the executive officer is entitled to participate with other executive officers in cash incentive compensation plans and discretionary cash bonuses, if approved or awarded by the Board, respectively. In addition to base salary, cash incentive compensation plans or discretionary cash bonuses as may be approved by the Board, the employment agreements provide for, among other things, participation in a Section 125 cafeteria plan, group medical, dental, and vision (referred to as the "Core Plans"), disability, and life insurance plans, the 401(k) plan, and other employee and fringe benefits applicable to executive personnel.

During the employment period, each executive officer is provided with a supplemental disability insurance policy that pays 60% of base salary for the remaining term of the agreement in the event the executive officer is terminated due to disability. If an executive officer becomes disabled, his or her base salary will be reduced proportionately by the disability payments made under the disability policy and under the federal social security system. Each executive officer is responsible for paying the premiums but receives an annual allowance in an amount sufficient, on an after-tax basis, to equal the premium payments. In the event of termination of employment due to disability, the executive officer will be entitled to his earned salary, an amount equal to the annual average of any cash incentive compensation and bonus that the executive officer received during the preceding two fiscal years, except for Mr. Deutsch who would receive an amount equal to the cash incentive compensation he would receive during the current year. The executive officer will receive the prorated employer matching 401(k) plan contribution that the executive officer would be entitled to receive for the current year. In addition, the executive officer will be entitled to the base salary the executive officer would have been paid through the date the employment period would have expired if the executive officer's employment had not been sooner terminated due to disability, which will be reduced on a dollar-for-dollar basis by the disability insurance and federal social security disability payments referenced above, and continued coverage under the Core Plans through the date the employment period would have expired, subject to the executive officer's continued payment of the costs and contributions for which he is responsible. After their continued coverage under the core plans expires, Messrs. Cloutier, Manos, and Deutsch will be provided with a cash insurance expense stipend if the Bank's insurer will not allow them to remain in the Bank's health insurance plan after their employment ends or until they become eligible for Medicare coverage or for coverage under another employer's group health plan. Mr. Gasior will have access to health insurance until he qualifies for Medicare provided that he pays the annual insurance premiums at COBRA rates. Mr. Brennan is eligible for Medicare and thus will not be provided with any post-termination health insurance.

In the event the executive officer's employment is terminated due to death, his surviving spouse and minor children, if any, will be entitled to the same coverage under the core plans that the executive officer would have been provided if his employment had terminated due to disability. In addition, the executive officer's estate or trust, as applicable, will be entitled to the base salary the executive officer would have been paid through the date the employment period would have expired if the executive officer's employment had not been sooner terminated due to death. The Bank will generally have no obligation to pay or provide an executive officer's estate, surviving spouse, or minor children with any other compensation or benefits on account of the executive officer's death.

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In the event the executive officer's employment is terminated without cause by the Bank, the executive officer will receive his earned salary, prorated incentive compensation, accrued plan contribution, and continued coverage under the Core Plans for 36 months, except for Mr. Deutsch, whose continued coverage would be during the remaining employment period, and Mr. Brennan, who would have no continued coverage due to his eligibility for Medicare. Continued coverage under the Core Plans is subject to the executive officer's payment of costs and contributions for which he or she is responsible. After their continued coverage under the Core Plans expires, Messrs. Cloutier, Manos, and Deutsch will be provided with a cash insurance expense stipend; Mr. Gasior will have access to health insurance until he qualifies for Medicare provided that he pays the annual insurance premiums at COBRA rates. In the event of a termination without cause, the executive would be paid an amount equal to three times the average annual compensation, with the exception of Mr. Deutsch who would be paid his base salary from the effective date of termination through the date the employment period would have expired. Payment of benefits would be made in a single lump sum (except for Mr. Deutsch, for whom the payment would be made in equal installments), except for payments upon death and payments that exceed certain "safe harbor" provisions of the Internal Revenue Code.
Under the employment agreements, the executive officer may terminate his employment for "Good Reason" by giving notice within 60 days after the event giving rise to the right to terminate employment. Good Reason generally includes (i) the Bank's decision not to re-elect or failure to re-elect the executive officer to his present position; (ii) with the exception of Mr. Deutsch, the Bank's failure to extend the executive officer's employment period on the anniversary date for an additional year; (iii) the relocation of the executive officer's principal place of employment by more than a specified distance; (iv) the reduction in the executive officer's base salary or a material reduction in benefits to which the executive officer is entitled; (v) the liquidation or dissolution of the Bank or the Company; (vi) the Bank's material uncured breach of the employment agreement; and (vii) with the exception of Mr. Deutsch, the occurrence of a "Change of Control" as such term is defined in the 2006 EIP. With respect to Mr. Gasior's employment agreement, "Good Reason" also includes the failure to elect or re-elect him as Chairman of the Board of Directors of the Bank, a change in the composition of the Board of Directors of the Bank such that the current directors no longer constitute a majority of the board other than in certain circumstances where the new board is nominated or appointed by the existing board, or a significant reduction in the scope of his duties, powers, privileges, authority or responsibilities. In the event an executive officer's employment is terminated for Good Reason, he will receive the same amounts, the same coverage under the Core Plans and the same health insurance coverage continuation rights that he would have received if his employment had been terminated without cause. An executive officer who terminates his employment by resignation other than due to Good Reason will only be entitled to his earned salary and vacation through the date of termination.
The executive officer is required under the employment agreement to execute a general release in consideration for any severance amounts. The executive officer also agrees not to compete with the Bank or its affiliates for six months after termination or during the period that severance amounts are paid, if longer. In addition, the executive officer agrees not to solicit the Bank's customers, their business or the Bank's employees for eighteen months, which may be reduced in certain circumstances. Payment of amounts due the executive officers under the employment agreements will generally be made in a single lump sum, or in the case of Mr. Deutsch, in equal installments as described above.
The Board of Directors of the Bank last reviewed the Bank's employment agreements with Messrs. Gasior, Cloutier, Manos, Deutsch and Brennan in 2017 and approved the extension of their terms through May 31, 2020. The reviews are conducted annually and the next review is scheduled to occur in the second quarter of 2018.
In October 2008, the Company entered into employment agreements with Messrs. Gasior, Cloutier and Brennan and amended them in December 2012, principally to ensure compliance with Section 409A of the Internal Revenue Code. In July 2017, the Company further amended their employment agreements. The employment agreements have three-year terms and, except as discussed below, are otherwise substantially similar to the respective employment agreements that these individuals have with the Bank. The Board of Directors of the Company last reviewed the Company's employment agreements with Messrs. Gasior, Cloutier and Brennan in 2017 and approved the extension of their terms through May 31, 2020. The reviews are conducted annually and the next review is scheduled to occur in the second quarter of 2018.
The Company does not separately compensate Messrs. Gasior, Cloutier or Brennan for their services to the Company. Instead, the Bank pays and provides their cash compensation and benefits, and allocates a portion of this expense to

the Company pursuant to an intercompany expense sharing arrangement in proportion to the time and services that they provide to the Company. The employment agreements between the Company and Messrs. Gasior, Cloutier and Brennan thus provide that any cash compensation and benefits that become simultaneously due under both their employment agreements with the Company and their employment agreements with the Bank will be subtracted from those due Messrs. Gasior, Cloutier and Brennan under their respective employment agreements with the Company. The payments and benefits that each of Messrs. Gasior, Cloutier and Brennan will receive under his employment agreement with the Company if his employment is terminated without cause, for

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Good Reason or due to death or disability are the same as those provided for in their respective employment agreements with the Bank.

The primary material differences between the Company's employment agreements with Messrs. Gasior, Cloutier and Brennan and their respective employment agreements with the Bank are that their employment agreements with the Company provide that, upon the termination of employment based on the occurrence of a Change of Control as that term is defined in the 2006 EIP, (i) the restricted periods applicable to the non-competition and non-solicitation covenants set forth in their respective employment agreements with the Company and their employment agreements with the Bank will be reduced to six months and the scope of the competitive restrictions will be limited to those that existed immediately prior to the Change of Control; and (ii) all obligations that may become due simultaneously under both the Company's employment agreements with Messrs. Gasior, Cloutier and Brennan and their respective employment agreements with the Bank will first be provided under their employment agreements with the Company. The Company employment agreements do not impose a limit on the compensation that would be payable to Messrs. Gasior, Cloutier or Brennan upon the occurrence of a Change of Control to avoid an "excess parachute payment" under Section 280G of the Internal Revenue Code.

Compensation of Directors

Directors' Fees. All directors of the Company, other than Messrs. O'Neill and Palmer, are also directors of the Bank. Except for Mr. Gasior, who receives no fees for serving as a director, committee chairperson or committee member, the directors of the Bank received a Board fee of $2,000 per month for preparing for and attending meetings of the Board of Directors of the Bank during 2017. Except for the Audit Committee, the Bank did not pay its directors a separate fee during 2017 for serving on board committees. The members of the Audit Committee were paid an Audit Committee fee during 2017 because the Audit Committee is a required entity with separate responsibilities established by applicable laws and regulations. During 2017, the Bank paid an Audit Committee fee of $1,000 per quarter to Mr. Hausmann (the Chairman of the Audit Committee), and $800 per quarter to Messrs. Wells and Wherfel (members of the Audit Committee). The Company did not compensate the other members of the Audit Committee due to the Audit Committee fee that they received from the Bank.

The Company did not separately compensate the members of its Board of Directors other than Messrs. O'Neill and Palmer during 2017 for preparing for and attending meetings of the Board of Directors of the Company. Messrs. O'Neill and Palmer were separately compensated for their service as directors of the Company because they are not directors of the Bank. The Company paid Messrs. O'Neill and Palmer a Board fee of $1,000 per month and also reimbursed Mr. O'Neill for his travel expenses for attending meetings of the Board of Directors of the Company.

The table below provides information on 2017 compensation for directors who served in 2017. Directors receive no perquisites in addition to the scheduled fees paid to each member, except as noted below:

Name	Fees Earned or Paid in Cash ($)	All Other Compensation [(1)]	Total ($)
Cassandra J. Francis	$24,000	$ —	$24,000
John M. Hausmann, C.P.A.	$28,000	$ —	$28,000
Thomas F. O'Neill	$12,000	$ 12,360	$24,360
John W. Palmer	$12,000	$ —	$12,000
Terry R. Wells	$27,200	$ —	$27,200
Glen R. Wherfel, C.P.A.	$27,200	$ —	$27,200

(1) The amount for Mr. O'Neill represents the cost of Board-approved chartered air travel for meeting attendance due to a temporary medical condition that limited his mobility.

The Holding Company's and Bank's standard Board and Committee fees remained constant from 2006 until 2018. In 2018, it was determined to re-evaluate the fees given the significant changes in business, market and regulatory conditions and expectations since the last review. Accordingly, management obtained updated industry comparison data from Cook & Co. to evaluate market conditions for the purpose of the 2018 Board and Committee fee review.

Based on the roles and responsibilities of the directors, the most recent market information and the overall industry comparative data, it was proposed and approved to increase the Board and Committee fees in April 2018.

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Below is a table reflecting the annualized Board and Committee fees.

Name	Current Fee	Fee Effective April 2018
Holding Company Director	$12,000	$ 18,000
Bank Director [(1)]	$24,000	$ 36,000
Audit Committee Chair	$4,000	$ 6,000
Audit Committee Member	$3,200	$ 4,800

(1) Historically, the directors of the Bank did not receive a separate fee for serving as a director of the Holding Company. Effective April 2018, a director will receive separate fees for serving as a director for the Holding Company and the Bank.

Outstanding Non-Employee Director Equity Awards at Fiscal Year-End

Non-employee directors had no outstanding equity awards as of December 31, 2017.

ADVISORY VOTE ON EXECUTIVE COMPENSATION

Pursuant to the rules and regulations of the SEC, the compensation of the Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers of the Company and Bank (collectively, the "Named Executive Officers") is described in detail in the "Compensation Discussion and Analysis" and "Executive Compensation" sections of this Proxy Statement, including the compensation tables and the accompanying narrative discussions.

At our 2017 Annual Meeting, we provided stockholders with the opportunity to vote on an advisory, non-binding basis as to the frequency that stockholders would vote on a "say-on-pay" proposal, which gives stockholders the opportunity to endorse or not endorse, on an advisory, non-binding basis, the compensation paid to our Named Executive Officers. In light of the advisory vote of stockholders at our 2017 Annual Meeting, we determined to hold the "say-on-pay" advisory vote on an annual basis until the next frequency vote, which is occurring at the 2023 Annual Meeting. Accordingly, stockholders have the opportunity to vote on an advisory, non-binding resolution at the Annual Meeting to approve the compensation of our Named Executive Officers, as described in this Proxy Statement under "Compensation Discussion and Analysis" and the compensation tables and narrative disclosure.

We are asking you to indicate your support for the compensation of our Named Executive Officers as described in this Proxy Statement. This vote is not intended to address any specific item of executive compensation, but rather the overall compensation of our Named Executive Officers and the compensation policies and practices described in this Proxy Statement.

The "say-on-pay" proposal will be presented at the Annual Meeting in the form of the following resolution:

"RESOLVED, that the compensation paid to the Company's Named Executive Officers, as disclosed in this Proxy Statement pursuant to Item 402 of Securities and Exchange Commission Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED."

The Board of Directors recommends that the stockholders of the Company vote "FOR" this resolution.

The Board of Directors believes that the Company's compensation policies and procedures appropriately encourage a culture of pay for performance, serve to attract and retain experienced, highly qualified executives who are critical to the Company's long term success, and align the compensation of the Named Executive Officers with the long term interests of the Company and its stockholders. Consistent with these objectives, and as discussed more fully in the "Compensation Discussion and Analysis" section of this Proxy Statement:

- The Chief Executive Officer, Chief Financial Officer, Commercial Real Estate Lending President, National Commercial Leasing President, and Executive Vice President received cash incentive plan payments, and the Corporate Secretary and General Counsel received a discretionary bonus payment for the year ended December 31, 2017.
- Base compensation increased 2.0% for all Named Executive Officers in 2018, except the base salary for Chief Executive Officer Gasior increased by 9.0% from 2017.
-

Base compensation increased 1.5% for all Named Executive Officers in 2017, except the base salary for Chief Executive Officer Gasior remained unchanged from 2016.

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The approval of this resolution requires the affirmative vote of a majority of the votes cast at the Annual Meeting, without regard to either broker non-votes or shares as to which the “ABSTAIN” box has been selected on the proxy card. At our 2017 Annual Meeting of Stockholders, over 72% of the advisory votes cast were for the approval of the compensation paid to the Company’s Named Executive Officers. The Company received no communications from shareholders concerning our “Say-On-Pay” resolution in 2017. During 2017 and 2018, the Human Resources Committee of the Bank updated and monitored the industry comparative data used for benchmarking the Bank’s financial and operating performance, established specific Business Plan performance targets for the named executive officers (other than Mr. Brennan) and measured the actual performance achieved in 2017 compared to the established Business Plan performance targets. For those named executive officers with established Business Plan performance targets, the Human Resources Committee of the Bank did not alter the original Business Plan targets nor approve discretionary bonus payments if the original Business Plan targets were not achieved. In addition, the Boards of Directors of the Company and of the Bank adopted revisions to the Code of Business Conduct and the Insider Trading Policy to include recovery of performance-based compensation related to restatements of financial reports under certain circumstances, and expanded the existing prohibitions on transactions involving shares issued by the Company (known as “anti-hedging” restrictions) to include the holding of shares in margin accounts or the pledging of shares as collateral for loan (known as “anti-pledging” restrictions) as disclosed above.

Where no instructions are indicated, validly executed proxies will be voted “FOR” this resolution.

The advisory vote on this resolution will not be binding on the Board of Directors or the Compensation Committee, and will not overrule their prior decisions with respect to the compensation that was paid or awarded to any Named Executive Officer or create or imply any additional fiduciary duty on the Board of Directors or the Human Resources Committee. The Board of Directors and the Human Resource Committee will review the voting results and take them into account when making future decisions on the compensation of the Named Executive Officers, and will periodically review all material elements of the Company’s executive compensation program and procedures to ensure that they continue to fulfill their objectives. Stockholders have an opportunity to vote annually on the compensation of the Company’s Named Executive Officers.

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COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Any stockholder who wishes to contact the Board of Directors or an individual director may do so by writing to the Board of Directors or the individual director care of, BankFinancial Corporation, 15W060 North Frontage Road, Burr Ridge, Illinois 60527, Attention: James J. Brennan, Secretary. Each communication received will be reviewed by the Secretary and distributed to the Board of Directors or the individual director, as appropriate, depending on the facts and circumstances outlined in the communication. The Secretary may attempt to handle an inquiry directly or forward a communication to another employee of the Company for response. The Secretary also has the authority not to forward a communication to the Board of Directors or an individual director if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal or otherwise inappropriate.

TRANSACTIONS WITH CERTAIN RELATED PERSONS

Neither the Bank nor the Company had any outstanding extensions of credit as of December 31, 2017 to any executive officer or directors or to a related interest of a director or executive officer other than Ms. Francis. The Bank made certain secured real estate loans to Ms. Francis and her spouse prior to Ms. Francis' appointment as a director in 2006, and these loans were considered to be grandfathered from the Bank's practice of not making loans to directors or executive officers. Only one of these loans, a loan secured by a single family residence, is still outstanding. These extensions of credit, including the one outstanding loan, were made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with persons not related to the Bank, do not involve more than normal risk of collectability or present other unfavorable features, and have not been past due or classified as nonaccrual, restructured or a potential problem loan. The Bank's Professional Responsibility Policy provides that no director or executive officer (as defined by the Bank's Board of Directors) may provide goods or services to the Bank or an affiliate (which includes the Company) unless approved by the disinterested majority of the Board of Directors after full disclosure and it is determined that the arrangement is fair and appropriate. In addition, all transactions between the Bank or its affiliates and a director or executive officer must be conducted on an arm's length basis, comply with all applicable laws and regulations and be on terms that are no more favorable to the director or executive officer than those afforded to similarly situated customers and vendors.

STOCKHOLDER PROPOSALS

In order to be eligible for inclusion in the proxy materials for next year's annual meeting of stockholders, any stockholder proposal to take action at such meeting must be received at BankFinancial Corporation's executive office, 15W060 North Frontage Road, Burr Ridge, Illinois 60527, no later than 5:00 P.M., Chicago, Illinois Time, on December 28, 2018. Any such proposals shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934, as amended, and the Company's bylaws.

ADVANCE NOTICE OF BUSINESS TO BE CONDUCTED AT AN ANNUAL MEETING

The Company's bylaws provide an advance notice procedure for certain business, or nominations to the Board of Directors, to be brought before an annual meeting of stockholders. In order for a stockholder to properly bring business before an annual meeting, or to propose a nominee for election to the Board of Directors, the stockholder must give written notice to the Secretary of the Company not earlier than the 150th day nor later than 5:00 P.M., Chicago, Illinois Time, on the 120th day prior to the first anniversary of the date of mailing of the notice for the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 P.M., Chicago, Illinois Time, on the later of the 120th day prior to the date of such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. The notice must include:

- As to each individual whom the stockholder proposes to nominate for election or re-election as a director,

  the name, age, business address and residence address of such individual;

  the class, series and number of any shares of stock of BankFinancial Corporation that are beneficially owned by such individual;

  the date such shares were acquired and the investment intent of such acquisition; and

all other information relating to such individual that is required to be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934,

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as amended, and the rules thereunder (including such individual's written consent to being named in the Proxy Statement as a nominee and to serving as a director if elected);

- As to any other business that the stockholder proposes to bring before the meeting, a description of such business, the reasons for proposing such business at the meeting and any material interest in such business of such stockholder and any "Stockholder Associated Person" (as defined in the Company's bylaws), individually or in the aggregate, including any anticipated benefit to the stockholder and the Stockholder Associated Person therefrom;
- As to the stockholder giving the notice and any Stockholder Associated Person, the class, series and number of all shares of stock of the Company which are owned by such stockholder and by such Stockholder Associated Person, if any, and the nominee holder for, and number of shares owned beneficially but not of record by such stockholder and by any such Stockholder Associated Person;
- As to the stockholder giving the notice and any Stockholder Associated Person described above, the name and address of such stockholder, as they appear on the Company's stock ledger and current name and address, if different, and of such Stockholder Associated Person; and
- To the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election or re-election as a director or the proposal of other business on the date of such stockholder's notice.

Nothing in this Proxy Statement shall be deemed to require the Company to include in its Proxy Statement and proxy relating to an annual meeting any stockholder proposal that does not meet all of the requirements for inclusion established by the SEC in effect at the time such proposal is received.

Advance written notice for certain business, or nominations to the Board of Directors, to be brought before the 2019 Annual Meeting of Stockholders must be given to the Company no earlier than November 28, 2018 and no later than 5:00 P.M., Chicago, Illinois Time, on December 28, 2018. If notice is received before November 29, 2018 or after 5:00 P.M., Chicago, Illinois Time, on December 28, 2018, it will not be considered timely, and the Company will not be required to present the matter at the next Annual Meeting of Stockholders.

OTHER MATTERS

The Board of Directors is not aware of any business to come before the Annual Meeting other than the matters described above in the Proxy Statement. However, if any other matters should properly come before the Annual Meeting, it is intended that the holders of the proxies will act as determined by a majority vote of those present and voting.

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2017 WILL BE FURNISHED WITHOUT CHARGE TO STOCKHOLDERS AS OF THE RECORD DATE UPON WRITTEN REQUEST TO BANKFINANCIAL CORPORATION, 15W060 NORTH FRONTAGE ROAD, BURR RIDGE, ILLINOIS 60527, ATTN: JAMES J. BRENNAN, SECRETARY.

BY ORDER OF THE BOARD OF DIRECTORS
James J. Brennan
Secretary
Burr Ridge, Illinois
April 27, 2018

APPENDIX A
BANKFINANCIAL CORPORATION
CORPORATE GOVERNANCE AND NOMINATING COMMITTEE
OF THE BOARD OF DIRECTORS
COMMITTEE CHARTER
(Adopted by the Board of Directors on February 24, 2010)

I. PURPOSE OF THE COMMITTEE

The Corporate Governance and Nominating Committee shall be directly responsible for recruitment and evaluation of incumbent and new candidates for election to the Board of Directors.

II. MEMBERSHIP

The Board shall appoint the members of the Corporate Governance and Nominating Committee annually. All members of the Committee shall be independent of the Company's management and free of any relationship that would compromise their exercise of independent judgment as Committee members. Directors eligible for re-nomination during the current calendar year are not eligible for appointment as members of the Committee for the current year. Each member of the Committee must satisfy all applicable qualification and independence requirements set forth in the rules and regulations of applicable regulatory organizations.

III. FREQUENCY OF MEETINGS

The Committee shall meet as frequently as necessary but no less than annually. The Committee shall also meet at the request of the Chief Executive Officer or a majority of the Board of Directors. The Board of Directors shall designate a Chairperson of the Committee. The Committee Chairperson shall approve an agenda in advance of each meeting. A majority of the members of the Committee shall constitute a quorum. The Committee shall maintain minutes or other records of its meetings and activities.

The Committee shall, through its Chairperson, report regularly to the Board following the meetings of the Committee, addressing the matters designated by this Charter and such other related matters as the Committee may deem appropriate.

IV. AUTHORITY

The Committee may conduct or authorize investigations into any matters within its scope of this Charter. The Committee may also take any other action permitted by applicable laws, rules and regulations necessary to accomplish any action authorized by this charter.

The Committee may conduct meetings in executive session with members of the Board of Directors or new candidates (in each case, either individually or jointly) to effect the appropriate environment of communication and coordination for the Company's control environment.

The Committee may request reports from the Chief Executive Officer or General Counsel. The Committee may also retain (and determine the funding for) experts to advise or assist it, including outside counsel, search firms or other advisors, and the Company must provide sufficient funding for any such assistance.

V. SCOPE OF COMMITTEE RESPONSIBILITIES

The scope of Corporate Governance and Nominating Committee responsibilities is as follows:

A. Board of Directors Candidate Evaluation

- Determine whether candidates meet the minimum qualifications for election pursuant to the Company's Charter, Section 1.09 of the Company's Bylaws and all applicable laws and regulations to which the Company is subject, including the determination whether an existing or proposed Board member meets all standards of independence established by applicable regulatory organizations;
- Determine whether the background, experience and expertise of any candidate to the Board of Directors is in the long-term interests of stockholders. In its sole discretion, the Committee may consider the current composition of the Board of Directors and its Committees, the number of directors meeting all "independence" standards imposed by applicable regulatory organizations, present and future business activities and plans,

the representation of the diverse communities and geographies served by the Company and any other factors the Committee deems appropriate.

B. Corporate Governance Compliance

- Facilitate and coordinate all meetings of independent directors required by all regulatory organizations. The Committee may appoint one or more independent directors as liaisons to non-independent directors, management or stockholders as it deems appropriate;
- Coordinate and report to the Board of Directors an annual evaluation of the Board's performance;
- Review director compensation and recommend any changes to the Board of Directors;
- Review the suitability of this Charter and the Company's corporate governance practices and recommend any changes to the Board of Directors;
- At least annually, assess any emerging legal or regulatory issues that may have a material effect on the Company's corporate governance policies, practices or reports in the future.

VI. LEAD DIRECTOR

The Chairperson of the Committee shall serve as the Lead Director of the Board of Directors. The Lead Director will call and preside at all executive sessions or special meetings of the Board's outside, independent directors and provide feedback to the Chief Executive Officer regarding the same; work with the Chairpersons of the other Committees of the Board to ensure coordinated coverage of Board's duties and responsibilities; serve as a supplemental point of contact for Board members and stockholders; serve as a liaison between the Board's outside, independent Directors who are not considered independent under applicable legal standards; coordinate the implementation of this Charter, including the annual Board performance evaluation for herein; and execute such other duties and responsibilities as the Board may establish.

VII. UNIVERSAL AGENDA ACCESS

Any member of the Board of Directors may place an item on the Agenda for any regular or special meeting of the Board of Directors by notifying the Chief Executive Officer or the Secretary of the same at least three business days before the scheduled date of the meeting.

VIII. CONCLUSION

The Committee is to serve as an independent and objective party to monitor the Company's corporate governance practices and facilitate the effective governance of the Company based on its evaluation of the composition and conduct of the Board of Directors.