INTEL CORP
Form 10-Q
October 29, 2014

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 September 27, 2014.

Or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 000-06217
INTEL CORPORATION
(Exact name of registrant as specified in its charter)

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

(408) 765-8080
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Shares outstanding of the Registrant's common stock:

Class	Outstanding as of October 17, 2014
Common stock, $0.001 par value	4,835 million

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Nine Months Ended	
(In Millions, Except Per Share Amounts)	Sep 27, 2014	Sep 28, 2013	Sep 27, 2014	Sep 28, 2013
Net revenue	$14,554	$13,483	$41,149	$38,874
Cost of sales	5,096	5,069	15,161	15,924
Gross margin	9,458	8,414	25,988	22,950
Research and development	2,842	2,742	8,547	7,785
Marketing, general and administrative	1,979	1,970	6,087	6,082
Restructuring and asset impairment charges	20	124	238	124
Amortization of acquisition-related intangibles	77	74	222	217
Operating expenses	4,918	4,910	15,094	14,208
Operating income	4,540	3,504	10,894	8,742
Gains (losses) on equity investments, net	35	452	178	437
Interest and other, net	(25)	(32)	70	(119)
Income before taxes	4,550	3,924	11,142	9,060
Provision for taxes	1,233	974	3,099	2,065
Net income	$3,317	$2,950	$8,043	$6,995
Basic earnings per common share	$0.68	$0.59	$1.63	$1.41
Diluted earnings per common share	$0.66	$0.58	$1.58	$1.37
Cash dividends declared per common share	$0.45	$0.45	$0.90	$0.90
Weighted average common shares outstanding:				
Basic	4,880	4,981	4,945	4,969
Diluted	5,045	5,100	5,095	5,095

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In Millions)	Three Months Ended Sep 27, 2014	Three Months Ended Sep 28, 2013	Nine Months Ended Sep 27, 2014	Nine Months Ended Sep 28, 2013
Net income	$3,317	$2,950	$8,043	$6,995
Other comprehensive income, net of tax:				
Change in net unrealized holding gains (losses) on available-for-sale investments	303	769	217	1,376
Change in deferred tax asset valuation allowance	(26)	(20)	(30)	(20)
Change in net unrealized holding gains (losses) on derivatives	(184)	70	(173)	(37)
Change in net prior service costs (credits)	2	2	(41)	4
Change in actuarial valuation	(148)	31	(143)	101
Change in net foreign currency translation adjustment	(121)	51	(127)	23
Other comprehensive income (loss)	(174)	903	(297)	1,447
Total comprehensive income	$3,143	$3,853	$7,746	$8,442

See accompanying notes.

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INTEL CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions)	Sep 27, 2014	Dec 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	$3,143	$5,674
Short-term investments	3,451	5,972
Trading assets	9,000	8,441
Accounts receivable, net	3,647	3,582
Inventories	4,115	4,172
Deferred tax assets	1,674	2,594
Other current assets	2,479	1,649
Total current assets	27,509	32,084
Property, plant and equipment, net of accumulated depreciation of $45,368 ($41,988 as of December 28, 2013)	33,135	31,428
Marketable equity securities	6,514	6,221
Other long-term investments	2,153	1,473
Goodwill	10,556	10,513
Identified intangible assets, net	4,379	5,150
Other long-term assets	6,370	5,489
Total assets	$90,616	$92,358
Liabilities, temporary equity, and stockholders' equity		
Current liabilities:		
Short-term debt	$1,164	$281
Accounts payable	2,597	2,969
Accrued compensation and benefits	2,931	3,123
Accrued advertising	1,100	1,021
Deferred income	2,189	2,096
Other accrued liabilities	4,923	4,078
Total current liabilities	14,904	13,568
Long-term debt	12,103	13,165
Long-term deferred tax liabilities	3,551	4,397
Other long-term liabilities	3,070	2,972
Contingencies (Note 22)		
Temporary equity	915	—
Stockholders' equity:		
Preferred stock	—	—
Common stock and capital in excess of par value, 4,867 shares issued and 4,857 shares outstanding (4,967 issued and outstanding as of December 28, 2013)	21,894	21,536
Accumulated other comprehensive income (loss)	946	1,243
Retained earnings	33,233	35,477
Total stockholders' equity	56,073	58,256
Total liabilities, temporary equity, and stockholders' equity	$90,616	$92,358

See accompanying notes.

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INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

(In Millions)	Nine Months Ended Sep 27, 2014	Nine Months Ended Sep 28, 2013
Cash and cash equivalents, beginning of period	$5,674	$8,478
Cash flows provided by (used for) operating activities:		
Net income	8,043	6,995
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,491	5,123
Share-based compensation	867	855
Restructuring and asset impairment charges	238	124
Excess tax benefit from share-based payment arrangements	(109)	(42)
Amortization of intangibles	884	953
(Gains) losses on equity investments, net	(124)	(391)
Deferred taxes	(347)	(513)
Changes in assets and liabilities:		
Accounts receivable	(76)	131
Inventories	59	205
Accounts payable	(292)	312
Accrued compensation and benefits	(408)	(222)
Income taxes payable and receivable	(190)	873
Other assets and liabilities	611	335
Total adjustments	6,604	7,743
Net cash provided by operating activities	14,647	14,738
Cash flows provided by (used for) investing activities:		
Additions to property, plant and equipment	(7,962)	(7,763)
Acquisitions, net of cash acquired	(193)	(882)
Purchases of available-for-sale investments	(6,077)	(10,107)
Sales of available-for-sale investments	786	864
Maturities of available-for-sale investments	7,396	5,586
Purchases of trading assets	(10,347)	(13,034)
Maturities and sales of trading assets	9,541	10,890
Collection of loans receivable	17	124
Origination of loans receivable	—	(100)
Investments in non-marketable equity investments	(1,330)	(258)
Other investing	168	528
Net cash used for investing activities	(8,001)	(14,152)
Cash flows provided by (used for) financing activities:		
Increase (decrease) in short-term debt, net	(202)	38
Excess tax benefit from share-based payment arrangements	109	42
Proceeds from sales of shares through employee equity incentive plans	1,566	1,308
Repurchase of common stock	(7,106)	(1,899)
Payment of dividends to stockholders	(3,340)	(3,358)
Other financing	(199)	(307)
Net cash used for financing activities	(9,172)	(4,176)

Effect of exchange rate fluctuations on cash and cash equivalents	(5)	(7)
Net increase (decrease) in cash and cash equivalents	(2,531)	(3,597)
Cash and cash equivalents, end of period	$3,143	$4,881
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of capitalized interest	$59	$91
Income taxes, net of refunds	$3,579	$1,669

See accompanying notes.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited

Note 1: Basis of Presentation

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

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

Note 2: Recent Accounting Standards

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

Note 3: Fair Value

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

Fair Value Hierarchy

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

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

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

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

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

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis
Assets and liabilities measured and recorded at fair value on a recurring basis at the end of each period were as follows:

	September 27, 2014 Fair Value Measured and Recorded at Reporting Date Using				December 28, 2013 Fair Value Measured and Recorded at Reporting Date Using			
(In Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents:								
Corporate debt	$—	$967	$—	$967	$154	$1,920	$—	$2,074
Financial institution instruments	230	1,079	—	1,309	887	1,190	—	2,077
Government debt	—	23	—	23	—	269	—	269
Reverse repurchase agreements	—	268	—	268	—	400	—	400
Short-term investments:								
Corporate debt	194	489	29	712	274	1,374	19	1,667
Financial institution instruments	84	1,910	—	1,994	194	2,895	—	3,089
Government debt	323	422	—	745	183	1,033	—	1,216
Trading assets:								
Asset-backed securities	—	831	66	897	—	684	4	688
Corporate debt	2,580	442	—	3,022	2,161	628	—	2,789
Financial institution instruments	1,113	593	—	1,706	1,188	418	—	1,606
Government debt	1,338	2,037	—	3,375	1,625	1,733	—	3,358
Other current assets:								
Derivative assets	—	306	—	306	48	309	—	357
Loans receivable	—	596	—	596	—	103	—	103
Marketable equity securities	6,437	77	—	6,514	6,221	—	—	6,221
Other long-term investments:								
Asset-backed securities	—	—	7	7	—	—	9	9
Corporate debt	588	578	18	1,184	228	270	27	525
Financial institution instruments	254	425	—	679	90	402	—	492
Government debt	63	220	—	283	259	188	—	447
Other long-term assets:								
Derivative assets	—	23	27	50	—	7	29	36
Loans receivable	—	162	—	162	—	702	—	702
Total assets measured and recorded at fair value	$13,204	$11,448	$147	$24,799	$13,512	$14,525	$88	$28,125
Liabilities								
Other accrued liabilities:								
Derivative liabilities	$—	$323	$—	$323	$—	$372	$—	$372
Other long-term liabilities:								
Derivative liabilities	—	22	—	22	—	50	—	50
	$—	$345	$—	$345	$—	$422	$—	$422

Total liabilities measured and
recorded at fair value

Government debt includes instruments such as non-U.S. government bonds, U.S. agency securities, and U.S. Treasury securities. Financial institution instruments include instruments issued or managed by financial institutions in various forms such as commercial paper, fixed and floating rate bonds, money market fund deposits, and time deposits.

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

For assets held as of September 27, 2014, we transferred corporate debt, financial institution instruments, and government debt of approximately $230 million from Level 1 to Level 2 of the fair value hierarchy and approximately $400 million from Level 2 to Level 1 during the first nine months of 2014. These transfers were primarily based on changes in market activity for the underlying securities. Our policy is to reflect transfers between the fair value hierarchy levels at the beginning of the quarter in which a change in circumstances resulted in the transfer.

Investments in Debt Instruments

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

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

Fair Value Option for Loans Receivable

We elected the fair value option for loans receivable when the interest rate or currency exchange rate risk was hedged at inception with a related derivative instrument. As of September 27, 2014, the fair value of our loans receivable for which we elected the fair value option did not significantly differ from the contractual principal balance based on the contractual currency. Loans receivable are classified within other current assets and other long-term assets. Fair value is determined using a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Gains and losses from changes in fair value on the loans receivable and related derivative instruments, as well as interest income, are recorded in interest and other, net. During all periods presented, changes in the fair value of our loans receivable were largely offset by changes in the related derivative instruments, resulting in an insignificant net impact on our consolidated condensed statements of income. Gains and losses attributable to changes in credit risk are determined using observable credit default spreads for the issuer or comparable companies; these gains and losses were insignificant during all periods presented. We did not elect the fair value option for loans receivable when the interest rate or currency exchange rate risk was not hedged at inception with a related derivative instrument. Loans receivable not measured and recorded at fair value are included in the following "Financial Instruments Not Recorded at Fair Value on a Recurring Basis" section.

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

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

Some of our non-marketable equity investments have been measured and recorded at fair value due to events or circumstances that significantly impacted the fair value of those investments, resulting in other-than-temporary impairment charges. We classified these investments as Level 3 because the valuations used unobservable inputs that were significant to the fair value measurements and required management judgment due to the absence of quoted market prices. Impairment charges recognized on non-marketable equity investments held as of September 27, 2014, were $28 million during the third quarter of 2014 and $93 million during the first nine months of 2014 ($23 million during the third quarter of 2013 and $93 million during the first nine months of 2013 on non-marketable equity investments held as of September 28, 2013).

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

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

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

	September 27, 2014				
(In Millions)	Carrying Amount	Fair Value Measured Using Level 1	Level 2	Level 3	Fair Value
Grants receivable	$777	$—	$784	$—	$784
Loans receivable	$250	$—	$250	$—	$250
Non-marketable cost method investments	$1,871	$—	$—	$2,801	$2,801
Reverse repurchase agreements	$450	$—	$450	$—	$450
Short-term debt	$1,085	$—	$1,550	$—	$1,550
Long-term debt	$12,103	$11,319	$1,220	$—	$12,539
NVIDIA Corporation cross-license agreement liability	$393	$—	$399	$—	$399

	December 28, 2013				
(In Millions)	Carrying Amount	Fair Value Measured Using Level 1	Level 2	Level 3	Fair Value
Grants receivable	$416	$—	$481	$—	$481
Loans receivable	$267	$—	$250	$17	$267
Non-marketable cost method investments	$1,270	$—	$—	$2,105	$2,105
Reverse repurchase agreements	$400	$—	$400	$—	$400
Short-term debt	$24	$—	$24	$—	$24
Long-term debt	$13,165	$10,937	$2,601	$—	$13,538
NVIDIA Corporation cross-license agreement liability	$587	$—	$597	$—	$597

The fair value of our grants receivable is determined using a discounted cash flow model, which discounts future cash flows using an appropriate yield curve. As of September 27, 2014 and December 28, 2013, the carrying amount of our grants receivable was classified within other current assets and other long-term assets, as applicable.

The carrying amount and fair value of loans receivable exclude loans measured and recorded at a fair value of $758 million as of September 27, 2014 ($805 million as of December 28, 2013). The fair value of our loans receivable and reverse repurchase agreements, including those held at fair value, is determined using a discounted cash flow model. All significant inputs in the models are derived from or corroborated with observable market data, such as LIBOR-based yield curves, currency spot and forward rates, and credit ratings. The credit quality of these assets remains high, with credit ratings of A+/A1 or better for the substantial majority of our loans receivable and the majority of our reverse repurchase agreements as of September 27, 2014.

As of September 27, 2014 and December 28, 2013, the unrealized loss position of our non-marketable cost method investments was insignificant. Our non-marketable cost method investments are valued using the market and income approaches. The market approach includes the use of financial metrics and ratios of comparable public companies. The selection of comparable companies requires management judgment and is based on a number of factors, including comparable companies' sizes, growth rates, industries, and development stages. The income approach includes the use of a discounted cash flow model, which requires significant estimates regarding investees' revenue, costs, and discount rates based on the risk profile of comparable companies. Estimates of revenue and costs are developed using available market, historical, and forecast data. The valuation of these non-marketable cost method investments also takes into account variables such as conditions reflected in the capital markets, recent financing activities by the investees, the investees' capital structure, the terms of the investees' issued interests, and the level of marketability of the investments.

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

The carrying amount and fair value of short-term debt exclude drafts payable. Our short-term debt recognized at amortized cost includes our 2009 junior subordinated convertible debentures (2009 debentures). During the third quarter of 2014, the 2009 debentures were reclassified from long-term debt to short-term debt on the consolidated condensed balance sheets. Beginning September 28, 2014, holders may, at their option, surrender the 2009 debentures for conversion during the fourth quarter of 2014. For further information, see “Note 12: Borrowings." Our long-term debt recognized at amortized cost is comprised of our senior notes and our 2005 junior subordinated convertible debentures (2005 debentures). The fair value of our senior notes is determined using active market prices, and is therefore classified as Level 1. The fair value of our 2009 and 2005 convertible debentures is determined using discounted cash flow models with observable market inputs, and takes into consideration variables such as interest rate changes, comparable instruments, subordination discount, and credit-rating changes, and is therefore classified as Level 2.

The NVIDIA Corporation (NVIDIA) cross-license agreement liability in the preceding table was incurred as a result of entering into a long-term patent cross-license agreement with NVIDIA in January 2011. We agreed to make payments to NVIDIA over six years. As of September 27, 2014 and December 28, 2013, the carrying amount of the liability arising from the agreement was classified within other accrued liabilities and other long-term liabilities, as applicable. The fair value is determined using a discounted cash flow model, which discounts future cash flows using our incremental borrowing rates.

Note 4: Cash and Investments

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

(In Millions)	Sep 27, 2014	Dec 28, 2013
Available-for-sale investments	$14,417	$18,086
Cash	576	854
Equity method investments	1,491	1,038
Loans receivable	1,008	1,072
Non-marketable cost method investments	1,871	1,270
Reverse repurchase agreements	718	800
Trading assets	9,000	8,441
Total cash and investments	$29,081	$31,561

Available-for-Sale Investments

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

	September 27, 2014				December 28, 2013			
(In Millions)	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset-backed securities	$8	$—	$(1)	$7	$11	$—	$(2)	$9
Corporate debt	2,848	18	(3)	2,863	4,254	15	(3)	4,266
Financial institution instruments	3,976	6	—	3,982	5,654	5	(1)	5,658
Government debt	1,052	—	(1)	1,051	1,932	1	(1)	1,932
Marketable equity securities	3,305	3,209	—	6,514	3,340	2,881	—	6,221
Total available-for-sale investments	$11,189	$3,233	$(5)	$14,417	$15,191	$2,902	$(7)	$18,086

Government debt includes instruments such as non-U.S. government bonds, U.S. agency securities, and U.S. Treasury securities. Financial institution instruments include instruments issued or managed by financial institutions in various forms such as commercial paper, fixed and floating rate bonds, money market fund deposits, and time deposits. Time deposits were primarily issued by institutions outside the U.S. as of September 27, 2014 and December 28, 2013.

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

For information on the unrealized holding gains (losses) on available-for-sale investments reclassified out of accumulated other comprehensive income (loss) into the consolidated condensed statements of income, see "Note 21: Other Comprehensive Income (Loss)."

During the third quarter of 2014, we sold available-for-sale investments for proceeds of $373 million, of which $82 million related to sales of cash and cash equivalents ($359 million in the third quarter of 2013, of which $93 million related to sales of cash and cash equivalents). During the first nine months of 2014, we sold available-for-sale investments for proceeds of $1.2 billion, of which $459 million related to sales of cash and cash equivalents ($1.2 billion in the first nine months of 2013 of which $339 million related to sales of cash and cash equivalents). Proceeds received in the third quarter of 2013 included $142 million from the sale of our shares in Clearwire Corporation, previously included as marketable equity securities in the preceding table. There were no gross realized gains on sales of available-for-sale investments recognized in the third quarter of 2014 and $136 million in the first nine months of 2014 ($134 million in the third quarter of 2013 and $143 million in the first nine months of 2013). Gross realized gains recognized in the third quarter of 2013 included $111 million on the sale of our shares in Clearwire Corporation. For further information, see "Note 18: Gains (Losses) on Equity Investments, Net."

The amortized cost and fair value of available-for-sale debt investments, by contractual maturity, as of September 27, 2014, were as follows:

(In Millions)	Cost	Fair Value
Due in 1 year or less	$5,331	$5,350
Due in 1–2 years	1,197	1,198
Due in 2–5 years	922	923
Instruments not due at a single maturity date	434	432
Total	$7,884	$7,903

Equity Method Investments

IM Flash Technologies, LLC

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

As of September 27, 2014, we own a 49% interest in IMFT. The carrying value of our investment was $713 million as of September 27, 2014 ($646 million as of December 28, 2013) and is classified within other long-term assets.

IMFT is a variable interest entity. All costs of the IMFT joint venture will be passed on to Micron and Intel pursuant to our purchase agreements. Intel's portion of IMFT costs, primarily related to product purchases and production-related services, was approximately $100 million in the third quarter of 2014 and approximately $305 million in the first nine months of 2014 (approximately $80 million in the third quarter of 2013 and approximately $280 million in the first nine months of 2013). The amount due to IMFT for product purchases and services provided was approximately $85 million as of September 27, 2014 (approximately $75 million as of December 28, 2013).

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IMFT depends on Micron and Intel for any additional cash needs. Our known maximum exposure to loss approximated the carrying value of our investment balance in IMFT, which was $713 million as of September 27, 2014. Except for the amount due to IMFT for product purchases and services, we did not have any additional liabilities recognized on our consolidated condensed balance sheets in connection with our interests in this joint venture as of September 27, 2014. Our potential future losses could be higher than the carrying amount of our investment, as Intel and Micron are liable for other future operating costs or obligations of IMFT. Future cash calls could also increase our investment balance and the related exposure to loss. In addition, because we are currently committed to purchasing 49% of IMFT's production output and production-related services, we may be required to purchase products at a cost in excess of realizable value.

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

Cloudera, Inc.

During the second quarter of 2014, we invested in Cloudera, Inc. (Cloudera). Our fully-diluted ownership interest in Cloudera is 18% as of September 27, 2014. Our investment is accounted for under the equity and cost methods of accounting and is classified within other long-term assets. As of September 27, 2014, the carrying value of our equity method investment was $280 million and of our cost method investment was $454 million.

Trading Assets

As of September 27, 2014 and December 28, 2013, all of our trading assets were marketable debt instruments. Net losses related to trading assets still held at the reporting date were $283 million in the third quarter of 2014 and net losses were $254 million in the first nine months of 2014 (net gains of $96 million in the third quarter of 2013 and $43 million in the first nine months of 2013). Net gains on the related derivatives were $278 million in the third quarter of 2014 and net gains of $252 million in the first nine months of 2014 (net losses of $97 million in the third quarter of 2013 and $40 million in the first nine months of 2013).

Note 5: Inventories

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

(In Millions)	Sep 27, 2014	Dec 28, 2013
Raw materials	$496	$458
Work in process	2,292	1,998
Finished goods	1,327	1,716
Total inventories	$4,115	$4,172

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Note 6: Derivative Financial Instruments

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

Currency Exchange Rate Risk

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

Our currency risk management programs include:

- Currency derivatives with cash flow hedge accounting designation that utilize currency forward contracts and currency options to hedge exposures to the variability in the U.S.-dollar equivalent of anticipated non-U.S.-dollar-denominated cash flows. These instruments generally mature within 12 months. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss), and we reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and in the same line item on the consolidated condensed statements of income as the impact of the hedged transaction.
- Currency derivatives without hedge accounting designation that utilize currency forward contracts or currency interest rate swaps to economically hedge the functional currency equivalent cash flows of recognized monetary assets and liabilities, non-U.S.-dollar-denominated debt instruments classified as trading assets, and hedges of non-U.S.-dollar-denominated loans receivable recognized at fair value. The majority of these instruments mature within 12 months. Changes in the functional currency equivalent cash flows of the underlying assets and liabilities are approximately offset by the changes in fair value of the related derivatives. We record net gains or losses in the line item on the consolidated condensed statements of income most closely associated with the related exposures, primarily in interest and other, net, except for equity-related gains or losses, which we primarily record in gains (losses) on equity investments, net.

Interest Rate Risk

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

Our interest rate risk management programs include:

- Interest rate derivatives with cash flow hedge accounting designation that utilize interest rate swap agreements to modify the interest characteristics of debt instruments. For these derivatives, we report the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss), and we reclassify it into earnings in the same period or periods in which the hedged transaction affects earnings, and in the same line item on the consolidated condensed statements of income as the impact of the hedged transaction.
- Interest rate derivatives without hedge accounting designation that utilize interest rate swaps and currency interest rate swaps in economic hedging transactions, including hedges of non-U.S.-dollar-denominated debt instruments classified as trading assets and hedges of non-U.S.-dollar-denominated loans receivable recognized at fair value. Floating interest rates on the swaps generally reset on a quarterly basis. Changes in fair value of the debt instruments classified as trading assets and loans receivable recognized at fair value are generally offset by changes in fair value of the related derivatives, both of which are recorded in interest and other, net.

Equity Market Risk

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

Commodity Price Risk

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

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

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

(In Millions)	Sep 27, 2014	Dec 28, 2013	Sep 28, 2013
Currency forwards	$13,896	$13,404	$12,458
Currency interest rate swaps	5,015	4,377	3,665
Embedded debt derivatives	3,600	3,600	3,600
Interest rate swaps	1,259	1,377	1,269
Total return swaps	1,032	914	873
Other	53	67	72
Total	$24,855	$23,739	$21,937

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

(In Millions)	Sep 27, 2014	Dec 28, 2013	Sep 28, 2013
British pound sterling	$420	$549	$403
Chinese yuan	1,420	1,116	648
Euro	6,973	6,874	5,952
Israeli shekel	2,170	2,244	2,006
Japanese yen	4,223	4,116	3,864
Malaysian ringgit	771	506	444
Swiss franc	1,361	1,189	1,416
Other	1,573	1,187	1,390
Total	$18,911	$17,781	$16,123

Fair Value of Derivative Instruments in the Consolidated Condensed Balance Sheets
The fair value of our derivative instruments at the end of each period were as follows:

	September 27, 2014				December 28, 2013			
(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	$17	$ —	$224	$ 14	$114	$ 1	$118	$ 2
Total derivatives designated as hedging instruments	$17	$ —	$224	$ 14	$114	$ 1	$118	$ 2
Derivatives not designated as hedging instruments:								
Currency forwards	$121	$ —	$39	$ —	$66	$ —	$63	$ —
Currency interest rate swaps	164	22	43	—	124	6	163	29
Interest rate swaps	4	—	17	—	5	—	28	—
Total return swaps	—	—	—	—	48	—	—	—
Other	—	28	—	8	—	29	—	19
Total derivatives not designated as hedging instruments	$289	$ 50	$99	$ 8	$243	$ 35	$254	$ 48
Total derivatives	$306	$ 50	$323	$ 22	$357	$ 36	$372	$ 50

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Amounts Offset in the Consolidated Condensed Balance Sheets

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

September 27, 2014

(In Millions)	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Balance Sheet: Cash and Non-Cash Collateral Received or Pledged	Net Amount
Assets:						
Derivative assets subject to master netting arrangements	$312	$—	$312	$(220)	$(54)	$38
Reverse repurchase agreements	718	—	718	—	(715)	3
Total assets	$1,030	$—	$1,030	$(220)	$(769)	$41
Liabilities:						
Derivative liabilities subject to master netting arrangements	$328	$—	$328	$(220)	$(88)	$20
Total liabilities	$328	$—	$328	$(220)	$(88)	$20

December 28, 2013

(In Millions)	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Balance Sheet: Cash and Non-Cash Collateral Received or Pledged	Net Amount
Assets:						
Derivative assets subject to master netting arrangements	$325	$—	$325	$(158)	$(3)	$164
Reverse repurchase agreements	800	—	800	—	(800)	—
Total assets	$1,125	$—	$1,125	$(158)	$(803)	$164
Liabilities:						
Derivative liabilities subject to master netting arrangements	$401	$—	$401	$(158)	$(32)	$211
Total liabilities	$401	$—	$401	$(158)	$(32)	$211

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Derivatives in Cash Flow Hedging Relationships

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

(In Millions)	Three Months Ended Sep 27, 2014	Three Months Ended Sep 28, 2013	Nine Months Ended Sep 27, 2014	Nine Months Ended Sep 28, 2013
Currency forwards	$(241)	$84	$(201)	$(105)
Other	—	(1)	(3)	—
Total	$(241)	$83	$(204)	$(105)

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

For information on the unrealized holding gains (losses) on derivatives reclassified out of accumulated other comprehensive income into the consolidated condensed statements of income, see "Note 21: Other Comprehensive Income (Loss)."

Derivatives Not Designated as Hedging Instruments

The effects of derivative instruments not designated as hedging instruments on the consolidated condensed statements of income for