

INTEL CORP
Form 10-Q
October 28, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the quarterly period ended September 26, 2015.

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

Commission File Number 000-06217

INTEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-1672743

(I.R.S. Employer Identification No.)

2200 Mission College Boulevard, Santa Clara, California

(Address of principal executive offices)

(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 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 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 Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

Shares outstanding of the Registrant's common stock:

Class

Common stock, \$0.001 par value

Outstanding as of October 16, 2015

4,719 million

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTEL CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME (Unaudited)

(In Millions, Except Per Share Amounts)	Three Months Ended		Nine Months Ended	
	Sep 26, 2015	Sep 27, 2014	Sep 26, 2015	Sep 27, 2014
Net revenue	\$ 14,465	\$ 14,554	\$ 40,441	\$ 41,149
Cost of sales	5,354	5,096	15,352	15,161
Gross margin	9,111	9,458	25,089	25,988
Research and development	2,927	2,842	9,009	8,547
Marketing, general and administrative	1,910	1,979	5,812	6,087
Restructuring and asset impairment charges	14	20	367	238
Amortization of acquisition-related intangibles	68	77	198	222
Operating expenses	4,919	4,918	15,386	15,094
Operating income	4,192	4,540	9,703	10,894
Gains (losses) on equity investments, net	165	35	297	178
Interest and other, net	(104	) (25	) (91	) 70
Income before taxes	4,253	4,550	9,909	11,142
Provision for taxes	1,144	1,233	2,102	3,099
Net income	\$ 3,109	\$ 3,317	\$ 7,807	\$ 8,043
Basic earnings per share of common stock	\$ 0.65	\$ 0.68	\$ 1.64	\$ 1.63
Diluted earnings per share of common stock	\$ 0.64	\$ 0.66	\$ 1.59	\$ 1.58
Cash dividends declared per share of common stock	\$ 0.48	\$ 0.45	\$ 0.96	\$ 0.90
Weighted average shares of common stock outstanding:				
Basic	4,747	4,880	4,749	4,945
Diluted	4,876	5,045	4,900	5,095

See accompanying notes.

INTEL CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(In Millions)	Three Months Ended		Nine Months Ended	
	Sep 26, 2015	Sep 27, 2014	Sep 26, 2015	Sep 27, 2014
Net income	\$3,109	\$3,317	\$7,807	\$8,043
Other comprehensive income, net of tax:				
Change in net unrealized holding gains (losses) on available-for-sale investments	(1,029	) 303	(943	) 217
Change in deferred tax asset valuation allowance	(5	) (26	) (13	) (30
Change in net unrealized holding gains (losses) on derivatives	42	(184	) 89	(173
Change in net prior service (costs) credits	2	2	6	(41
Change in actuarial valuation	11	(148	) 30	(143
Change in net foreign currency translation adjustment	(1	) (121	) (170	) (127
Other comprehensive income (loss)	(980	) (174	) (1,001	) (297
Total comprehensive income	\$2,129	\$3,143	\$6,806	\$7,746
See accompanying notes.				

INTEL CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS (Unaudited)

(In Millions)	Sep 26, 2015	Dec 27, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$7,065	\$2,561
Short-term investments	7,119	2,430
Trading assets	6,659	9,063
Accounts receivable, net	4,101	4,427
Inventories	4,965	4,273
Deferred tax assets	1,992	1,958
Other current assets	4,304	3,018
Total current assets	36,205	27,730
Property, plant and equipment, net of accumulated depreciation of \$51,405 (\$46,471 as of December 27, 2014)	31,597	33,238
Marketable equity securities	5,618	7,097
Other long-term investments	1,829	2,023
Goodwill	11,026	10,861
Identified intangible assets, net	4,022	4,446
Other long-term assets	8,255	6,505
Total assets	\$98,552	\$91,900
Liabilities, temporary equity, and stockholders' equity		
Current liabilities:		
Short-term debt	\$1,129	\$1,596
Accounts payable	2,449	2,748
Accrued compensation and benefits	2,732	3,475
Accrued advertising	1,028	1,092
Deferred income	2,160	2,205
Other accrued liabilities	5,582	4,895
Total current liabilities	15,080	16,011
Long-term debt	20,059	12,059
Long-term deferred tax liabilities	2,502	3,775
Other long-term liabilities	2,909	3,278
Contingencies (Note 21)		
Temporary equity	905	912
Stockholders' equity:		
Preferred stock	—	—
Common stock and capital in excess of par value, 4,731 issued and 4,730 outstanding (4,752 issued and 4,748 outstanding as of December 27, 2014)	23,001	21,781
Accumulated other comprehensive income (loss)	(335	) 666
Retained earnings	34,431	33,418
Total stockholders' equity	57,097	55,865
Total liabilities, temporary equity, and stockholders' equity	\$98,552	\$91,900
See accompanying notes.		

INTEL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

(In Millions)	Nine Months Ended	
	Sep 26, 2015	Sep 27, 2014
Cash and cash equivalents, beginning of period	\$2,561	\$5,674
Cash flows provided by (used for) operating activities:		
Net income	7,807	8,043
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,885	5,491
Share-based compensation	1,009	867
Restructuring and asset impairment charges	367	238
Excess tax benefit from share-based payment arrangements	(139)	(109)
Amortization of intangibles	680	884
(Gains) losses on equity investments, net	(245)	(124)
Deferred taxes	(1,093)	(347)
Changes in assets and liabilities:		
Accounts receivable	332	(76)
Inventories	(640)	59
Accounts payable	(86)	(292)
Accrued compensation and benefits	(1,217)	(408)
Income taxes payable and receivable	774	(190)
Other assets and liabilities	156	611
Total adjustments	5,783	6,604
Net cash provided by operating activities	13,590	14,647
Cash flows provided by (used for) investing activities:		
Additions to property, plant and equipment	(4,998)	(7,962)
Acquisitions, net of cash acquired	(538)	(193)
Purchases of available-for-sale investments	(7,522)	(6,077)
Sales of available-for-sale investments	1,040	786
Maturities of available-for-sale investments	2,153	7,396
Purchases of trading assets	(7,943)	(10,347)
Maturities and sales of trading assets	10,465	9,541
Investments in loans receivable and reverse repurchase agreements	(2,550)	(150)
Collection of loans receivable and reverse repurchase agreements	466	117
Investments in non-marketable equity investments	(1,864)	(1,330)
Other investing	380	218
Net cash used for investing activities	(10,911)	(8,001)
Cash flows provided by (used for) financing activities:		
Increase (decrease) in short-term debt, net	(473)	(202)
Excess tax benefit from share-based payment arrangements	139	109
Issuance of long-term debt, net of issuance costs	7,986	—
Proceeds from sales of common stock through employee equity incentive plans	696	1,566
Repurchase of common stock	(2,476)	(6,792)
Restricted stock unit withholdings	(416)	(314)
Payment of dividends to stockholders	(3,423)	(3,340)

Edgar Filing: INTEL CORP - Form 10-Q

Collateral associated with repurchase of common stock	325	—	
Decrease in liability due to return of collateral associated with repurchase of common stock	(325)) —	
Other financing	(209)	) (199)
Net cash provided by (used for) financing activities	1,824	(9,172)
Effect of exchange rate fluctuations on cash and cash equivalents	1	(5)
Net increase (decrease) in cash and cash equivalents	4,504	(2,531)
Cash and cash equivalents, end of period	\$7,065	\$3,143	
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest, net of capitalized interest	\$60	\$59	
Income taxes, net of refunds	\$2,301	\$3,579	
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 27, 2014 and Form 8-K filed with the U.S. Securities and Exchange Commission (SEC) on June 5, 2015. We have reclassified certain prior period amounts to conform to current period presentation.

We have a 52- or 53-week fiscal year that ends on the last Saturday in December. Fiscal year 2016 is a 53-week fiscal year, and the first quarter of 2016 will be a 14-week quarter.

As a result of our integration of McAfee Inc. (McAfee) in the third quarter of 2015, the functional currency for operations previously acquired from McAfee was changed to U.S. dollar, making U.S. dollar the functional currency for Intel and our subsidiaries.

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 27, 2014 and as updated by the Form 8-K filed with the SEC on June 5, 2015.

Note 2: Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) 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. On July 9, 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the new standard is effective for us beginning in the first quarter of 2018 and we expect to adopt it at that time. 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.

In the third quarter of 2015, we adopted an amended standard simplifying the presentation of debt issuance costs as a direct deduction from the carrying value of the debt liability rather than showing the debt issuance costs as an asset. We have applied the amendment retrospectively to the comparable period presented and it did not have a significant impact on our 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 cost method investments, cost method loans receivable, equity method investments, grants receivable, and reverse repurchase agreements with original maturities greater than approximately three months. Substantially all of our liabilities are not measured and recorded at fair value.

INTEL CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — Unaudited (Continued)

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:

(In Millions)	September 26, 2015				December 27, 2014			
	Fair Value Measured and Recorded at Reporting Date Using				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:								
Corporate debt	\$—	\$3,607	\$—	\$3,607	\$—	\$48	\$—	\$48
Financial institution instruments	100	1,756	—	1,856	321	1,119	—	1,440
Government debt	6	187	—	193	—	—	—	—
Reverse repurchase agreements	—	668	—	668	—	268	—	268
Short-term investments:								
Corporate debt	263	1,960	30	2,253	363	412	31	806
Financial institution instruments	105	2,341	—	2,446	149	1,050	—	1,199
Government debt	81	2,339	—	2,420	252	173	—	425
Trading assets:								
Asset-backed securities	—	384	55	439	—	766	58	824
Corporate debt	1,626	569	—	2,195	2,625	339	—	2,964
Financial institution instruments	964	541	—	1,505	1,146	613	—	1,759
Government debt	974	1,546	—	2,520	1,295	2,221	—	3,516
Other current assets:								