

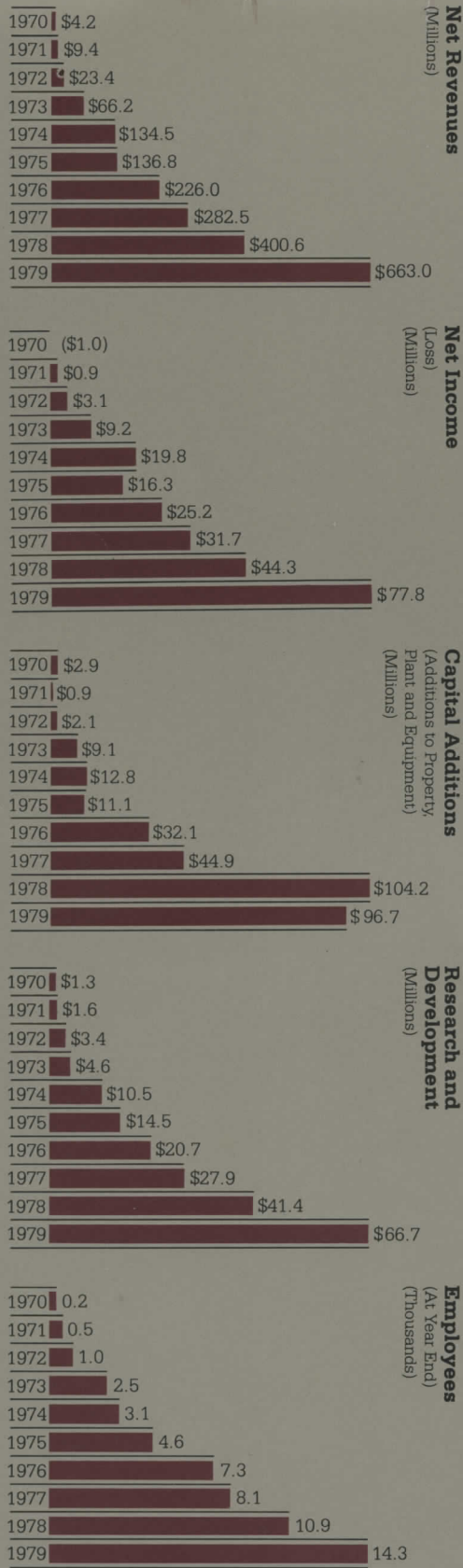


FINANCIAL HIGHLIGHTS

(Dollars in thousands-except per share amounts)

	1979	1978	Percent Change
Net revenues	\$662,996	\$400,620	65.5%
Income			
Before taxes	\$149,048	\$ 86,551	72.2%
Net	\$ 77,804	\$ 44,314	75.6%
Per share	\$ 3.59	\$ 2.16	66.2%
Return on revenues			
Before taxes	22.5%	21.6%	
Net	11.7%	11.1%	
Return on average equity	30.6%	25.0%	

See page 28 for a description of our industry segment reporting.



1979 proved to be an excellent year for our company. Revenue grew 65% from the previous year to \$663 million and net income grew 76% to \$78 million. Net income per share was up 66% to \$3.59 compared to \$2.16 for 1978 after adjusting for the three-for-two stock split in April 1979. In spite of the large capital needs created by this rapid growth, including \$97 million of additions to facilities and equipment, we were able to decrease our short-term debt during the year by \$25 million to \$19 million and improve our cash position by \$6 million. The corporation continues to have no long-term debt.

The year was characterized by a persistent industry-wide shortage of capacity to produce memory and microcomputer components due to demand that far exceeded most estimates made at the beginning of the year. As a result, prices for many products did not decline as rapidly with increased production levels as has been historically common in the semiconductor industry.

An especially significant influence for Intel this year was the expanding role of the microcomputer as a major force in spreading the use of electronics, both within and outside the usual customers for elec-

tronic components. Our major commitment to this area since we introduced the world's first microprocessor in 1971 is proving to be rewarding. Not only has demand grown for microprocessors, but also for our associated large scale integrated peripheral circuits, memories, microcomputer development systems and board-level products as well. We feel the real impact on society of the ability to distribute electronic intelligence in the form of inexpensive microcomputers is just beginning to be felt. This should continue to be an area of rapid expansion for many years to come. We are proud of our leading position and are striving to retain it.

As we enter 1980, the markets for our products remain generally quite strong, in spite of increasing competition and a reportedly weakening economy. We are expanding facilities and personnel in an attempt to meet the volume requirements our customers are projecting. Our new silicon wafer fabrication plant in Aloha, Oregon started production in the first quarter of 1979. It will continue to expand in 1980 and beyond. Another new facility in Santa Clara, California is just starting production, and we have a major new fabrication plant under construction in Chandler, Arizona that will start to

come on stream by the end of 1980. In addition, construction has just begun to double the size of our Livermore, California plant, to be ready about the beginning of 1981. These large capital investments will make major strides toward expanding our capacity so that we are able to meet the burgeoning demand for our memory and microcomputer components.

Our microcomputer development systems business grew significantly in 1979 over the preceding year. These small, special purpose computer systems have become a standard laboratory item for engineers designing products which utilize our microcomputer components and board-level products. As the range of sophistication of microprocessors and microcomputers expands from simple single-chip controllers to complex computer systems utilizing large program memories, the range of needs for development systems also increases. We introduced extensions of the development systems aimed at increasing the range of our capability during the past year, and expect this trend to continue.

During the year, the headquarters of our Commercial Systems Division (CSD) moved to Phoenix, Arizona. Their IBM plug-compatible memory busi-

ness has slowed, reflecting the late portion of the life cycle of the IBM computer generation to which their memories are attached. In midyear, we announced a "semiconductor disk" memory system to enhance the performance of large computers. The product concept has been well received and we expect to begin shipments soon. This product and its extensions are important to the growth of CSD.

Early in 1979, Intel acquired MRI Systems, an Austin, Texas-based company specializing in database management systems. Their operation has been integrated into CSD as the Austin Operation. Sales of software packages and service have grown since the merger.

Intel's business has been based from the beginning on leading edge technology applied in volume production. Our continued high investment in R&D has allowed us to continue to introduce leadership products employing new processes in their manufacture.

During the year we had several new introductions of this kind. For example, Intel's high speed metal-oxide-semiconductor technology (HMOS), which has been unmatched in the industry for nearly two years, was upgraded to HMOS-II with an addition-

al speed improvement of over 30 percent. Both HMOS processes are used for our leading-edge static RAMs and an increasing variety of microcomputer products. We feel that they represent a major branch of semiconductor technology which we will continue to pursue.

Intel Magnetics introduced a million-bit bubble memory chip, our first product using this technique for information storage in films of magnetic materials and an industry first: our product stores four times as much information as any other bubble chip offered on the market. As our first entry with this new technology, it places Intel into a leading position. While we are still principally selling sample quantities, several commitments have been made to use the product and a few customers have taken modest production quantities. We believe this can become an important product area and that we are well positioned to participate.

Several important steps were undertaken to enhance our ability to continue to grow. We extended our geographical dispersion by transferring several operating entities from the San Francisco Bay Area to Phoenix and suburban Portland, Oregon. Most of the product divisions were further

subdivided into Operations, in an attempt to maintain the advantage of relatively small operating groups. An especially significant step was the formation of a Corporate Strategic Staff under Senior Vice President Les Vadasz to develop and enhance the coordinating and planning functions that become increasingly vital to our efficient operation as we get larger and spread geographically.

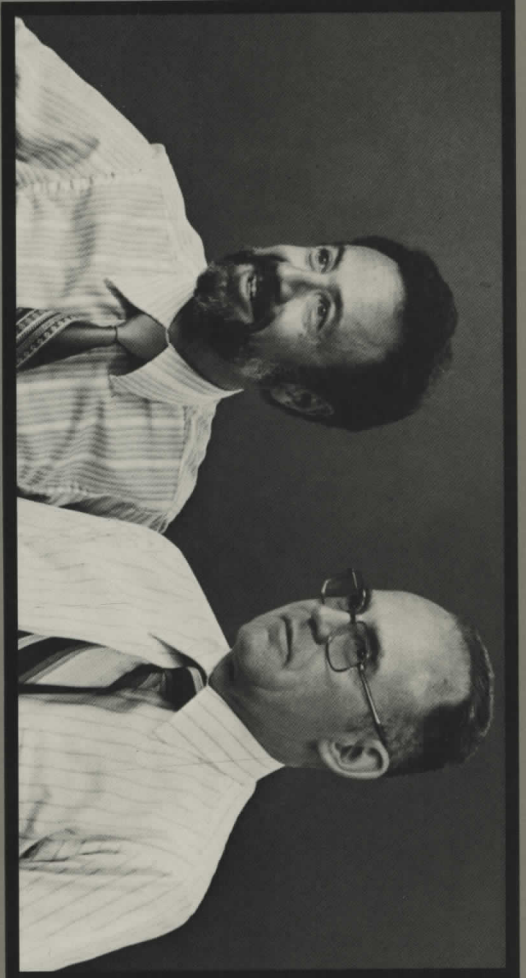
1979 was a complicated period in Intel's history. We were continuously torn between the unprecedented demand for our products on one hand and continued predictions of a world-wide recession on the other. We found ourselves proceeding full-speed ahead—with caution, a difficult balance to maintain. We are indebted to our entire staff for their dedication and perseverance in producing an outstanding year for Intel in such an unsettled and schizophrenic environment.

GE Moore

Gordon E. Moore
Chairman of the Board
of Directors and
Chief Executive Officer

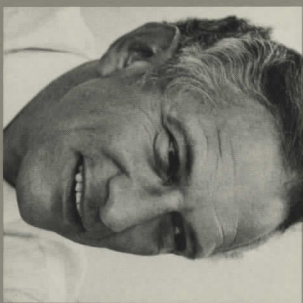
A. S. Grove

Andrew S. Grove
President and
Chief Operating Officer



This year's annual report focuses its attention on Intel people and how they work together and individually to get their jobs done. On a broader plane, it's about how Intel gets its job done through its people.

In the pages that follow, Intel people from various parts of the company comment on their views of the company, its organization and products, and on how they approach their jobs. From the United States, Europe, Asia and the Caribbean. From managers to test operators. From financial planners to circuit designers. We have asked each of the people in this Annual Report to tell his or her own story. What you will read here represents a distillation of conversations with Intel people, representing a cross-section of our firm. While it would be impossible, within the confines of a document this size, to present a truly representative group so that every division, group and staff organization within Intel was portrayed, we believe we have selected comments and views which you will find of interest.



Our focus is on how Intel gets products designed, built, sold and supported. And the stories are arranged to reflect a broad outline of that work flow. Beginning with a discussion of how a new product idea gets started and moved along, the discussions that follow describe the process of developing new technologies to support those products, moving them into the manufacturing area, fabricating the wafers, assembling the integrated circuit packages, selling them to an increasingly electronics-conscious world and supporting them after they've been designed into yet another new product. Along the way, you'll get to know marketing managers, design engineers, technology development experts, circuit designers, financial analysts, fabrication managers and supervisors. You'll get a glimpse of life as an Intel Field Sales Engineer or Field Applications Engineer away from Santa Clara. You'll hear how Intel has developed offshore assembly facilities with almost exclusively local personnel.

There is, of course, a deeper story to be told.

Support groups provide essential services to keep the people in these pages going. Personnel, payroll, computer operations, facilities maintenance, clerical and telephone support. These are but a few of the areas of Intel activities and people which are not directly addressed in this Annual Report. Not because they're not important, for they clearly are, but because we have tried to assemble a cohesive story of how Intel gets its main job—building and selling quality high-technology products—done through people in that mainstream.

The story that emerges is one of pride, dedication and job satisfaction. A story that derives from Intel's beginnings in 1968 when the company set a course of excellence and charted its future based on that course. This quest for excellence is made up of many parts. The more obvious ones include people, products, facilities, quality control and accounting practices. We have established monitors for each of these so that we can measure our progress toward the goal of excellence.

When these programs interact with one another, the impact is greater than the sum of the individual contributing parts, and that is what makes Intel function as it does. The combination and balancing of creativity and discipline, of control without bureaucracy, of efficiency without penny-pinching, are essential elements of the greater whole. Each individual and organizational entity contributes to it. Beyond that, the human interactions in the company have been developed so that they yield advice and criticism, as well as help in getting one's job done.

A great deal of creative energy has been spent developing and nurturing this corporate quest for excellence through planning and thought. This has resulted in programs which we believe to be desirable. Among these is the company's emphasis on training, where the instructor is most often a member of the Intel staff whose major responsibility is other than teaching. Another of these elements—and one you'll hear the speakers in these pages address frequently—is the statement of goals and

objectives throughout the organization, from corporate management through divisions to the individual contributor, and the regular review of these objectives by peer groups. There are, of course, a great many other elements including matrix management and the continuing emphasis on research and development in the design of state-of-the-art products. Rather than occupy more time and space with this message, let's be on with the discussion of how Intel gets its job done through its most important resource: its people.

R. Noyce

Robert N. Noyce
Vice Chairman

MRI, now known as Intel CSD Austin Operations, was acquired in February 1979. Intel and MRI knew little of each other's business, but understood the potential to profit from combinations of each other's technologies. Efforts during 1979 have allowed us to form plans and initiate development of products to take advantage of our technical synergies.

Adapting to Intel's "way of doing things" has been a positive learning experience. Applying stringent Intel profit objectives to our family of information resource management products—and learning the intensive people-to-people working disciplines which have characterized Intel throughout its early years have created an enthusiastic and aggressive attitude. We will enter 1980 with significantly greater objectives and expectations than would have existed without the Intel relationship.

We view our contribution to Intel's future as threefold. First, we will continue the profitable expansion and advancement of our current database management (DBMS) business. Second, we will help develop new products

that, properly coordinated with other Intel developments, will provide us with a new and significant position in a rapidly expanding marketplace during the 1980s. Finally, we have brought to Intel a new perspective of marketplace potentials and user needs that will act as a catalyst for developing strategies to make Intel a more diversified and stronger organization.

As would be expected, we as a software-oriented organization have problems and methods which differ from those of Intel's traditional hardware components and systems groups. However, we have some things in common, too. We must design, sell and service our products, just as other Intel divisions must do. Where other groups manufacture, we implement and duplicate. But as the experiences of the past year have shown us, we have much to learn from the rest of Intel, just as others can profit from our experiences and successes.

MRI personnel are pleased to now be an integral part of Intel and look forward with excitement to a future of challenges and achievements.

Where Intel's newest addition fits into the picture

Kent Ochel
General Manager,
CSD Austin Operations
(Formerly MRI Systems)



In my job as a marketing manager, I spend a great deal of time helping to determine what our product line ought to be. I would characterize Intel as a company remarkably prone to the "champion technique", where one individual can champion a new product idea with encouragement rather than interference. No other company I've experienced gets so much input from ground troops because of this policy.

The product planning cycle at Intel is unique, too, with Product Planning Committees (PPC's) putting together small working groups which really plan the new products. There isn't much more than monitoring and relatively minor course corrections along the way.

One of the reasons our way of designing and developing new products works so well is that there's so much input and thinking at the front end. The members of a Product Planning Committee get together and kick ideas around in an effort to convince one another. Once the group is convinced a new product has merit, they have to convince the Executive Staff and it's really tough to get a dumb idea past them.

All of these things are part of a conscious effort on our part to lead the industry both in technol-

ogy and in profitability. Those two goals are very synergistic.

This marketing position, in which I am involved deeply in both new product definition and selling, is very challenging to me. I started as a designer in computer mainframes and minicomputers. I came here several years ago when I saw my job at that employer being squeezed into a quarter-inch square of silicon. When I gravitated toward marketing, I was concerned that I would lose touch with new technology. At Intel, that hasn't been true. Marketing, in fact, provides an enormous leverage factor for me. I get to spend several months on a product at the beginning, help set its general course and then watch design take over and multiply my effort 10 to 20 times while I get involved in more new products.

Intel has a different sales technique from other companies in our field. We recognize that we're selling a highly technical product to a highly technical buying public, so we have a technical sales staff backed by field application engineers in a ratio of one to every two or three sales reps rather than the usual one-to-ten.

It's coming up with more of these key technical people which will provide our main challenge as we go into the 1980's.



*Jeff Katz, Manager,
Microprocessor Marketing*

*"One individual can
champion a new
product idea with
encouragement."*



*Bob Jecmen, Engineering
Project Manager, Static RAM
Product Development*

***"What's important at
Intel is your contribution
to the working group
and to the company."***

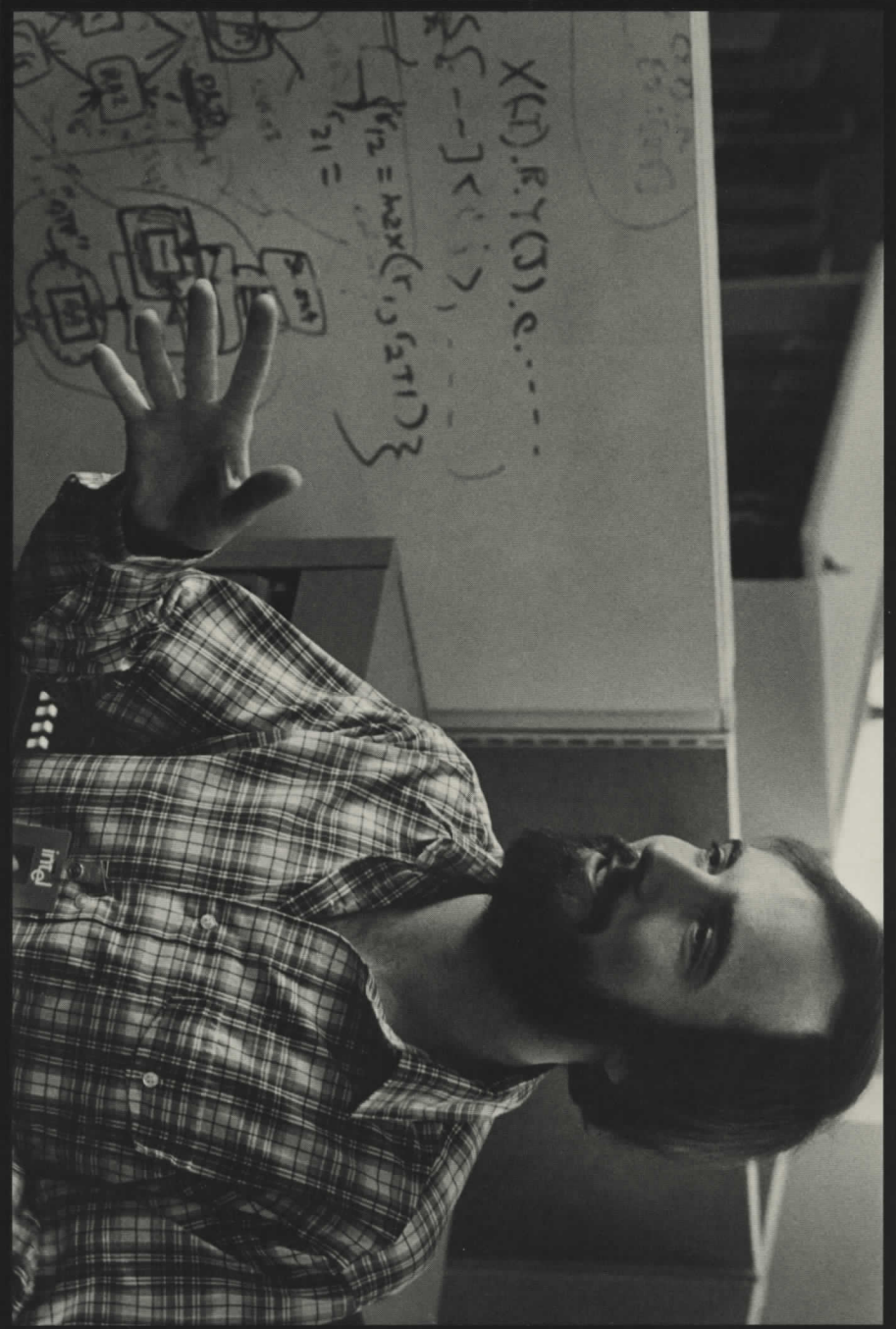
I think I'd point to two specific things that contribute directly to Intel's great success in dealing in products—the way we are organized at the working level and the philosophy of product development that we live by. In my design group, for example, we have the process development engineer, the circuit designer and the device physicist, all within one group. We eliminate the interfacing problems that come from having, like many other companies do, a process development group that works on

technologies, and a little room of circuit designers who only design circuits. All the responsibilities are in one group, a coordinated team working on a specific technology to produce a specific single product, or two or three related products. The other thing is our philosophy, which I think originates at the top levels of the company, that the best way to do technology development is on the manufacturing line rather than in some R&D lab.

We are really based on a results-oriented approach

to management. What's important at Intel is your contribution to the working group and to the company, rather than how you fit into some specific mold. Another thing I think makes a big difference is the flexibility of management. I've been encouraged that if I have an idea, a solution to a problem that might relate not only to me but to the whole department, I discuss it not only with my own supervisor but with his boss, too, rather than having to filter it through some vertical channel and hope that it eventually

reaches the level where some action can be taken. I like just about everything about working at Intel. We have one of the highest—if not the highest—commitments to development. The percentage of profit we commit to continued engineering development is extremely high. And it bears fruit. But probably the most important thing to me is the general job satisfaction Intel provides. I think that's the bottom line. What turns out to be important in the long run is how well you enjoy doing what you're doing.



John Crawford, Senior Software Engineer, Microcomputer Development Systems

"The people at Intel... are not satisfied with anything less than excellence."

my more than two years here is the way the different product groups work together. For example, when the 8086 microprocessor was being designed, we worked closely with the components group to develop the device's architecture. Communications is, in my opinion, one of the real keys to Intel as a successful company. If there's anything like a one-way communication channel here, it's bottom-to-top rather than vice versa as you'd expect at most companies. If anyone here has a communication problem, it's their own inhibitions. One part of the communication philosophy here is the concept of constructive confrontation, where you and the person you disagree with about a design or a project sit down and talk it out.

I am very pleased with my job. I came here because I was impressed with the people I interviewed with. They were head-and-shoulders above others I talked to and the company was exciting.

perately needed software project so that we can take the time to do it well. Second, the people running the show at Intel, in fact the people here in general, push you to do the best job you can. They're not satisfied with anything less than excellence.

That combination of things makes this a very enjoyable job and one in which I feel I have a real impact on the way Intel does business and on the company's overall success. Another thing I've found interesting about

working on an optimized way of running PASCAL (a computer language) and it's practically the perfect job for me. I'm tackling problems no one else has addressed. It's sort of like a giant brain-teaser. I find it very entertaining to sit down with a problem and find a solution. Intel makes it possible for me to do that kind of work because of two things.

First, the company is willing to invest money in research and to spend extra time even on a des-

When Intel comes up with a new microprocessor, the job of the group I work with in Development Systems Operations is to create the necessary software support to make that microprocessor usable by the customer.

Beyond that microprocessor-support activity, though, we also develop software products which are more like 'stand-alone' items. We've been doing more and more in that area lately. Right now, I'm



In my job, I deal with the creation of new products as well as with the support of customers after they've bought our products. So I get to see both ends of the spectrum of Intel's job. My staff and I talk to customers and pass on their comments about products they'd like to see us develop. This way, many of our products turn out to be things for which there is already a market before we build them.

Our customers expect us to be open and above-board, because that's the way we've always dealt with them. When I go into a customer's plant and make a commitment, there's a great deal of credibility because our dealings with that customer have always been open and honest. Even as a junior Marketing Engineer, I was given a sense of responsibility and access to information that made me smarter in my job.

This constant interaction and feedback—a team spirit—means there's really very little time for political games.

"Our customers expect us to be open and above-board, because that's the way we've always dealt with them."

*Vinod Mahendroo, U.S.
Product Sales Manager,
Memory Products Division,
Portland*

And that environment attracts absolutely top-notch people who are seeking intellectual stimulation. Another thing that helps attract those people is what I would say is the single most obvious thing about the management style at Intel—a great deal of premium on dissent.

I came to work at Intel because I was very impressed with the people who interviewed me. They were bright, honest and open. And they told me a lot of things I've since learned are true. For example, at Intel, in any given year, each and every department has the problem of having more work to do than they have people to do it. That means you get an early opportunity to gain responsibility.

The challenge for the 1980's is going to be finding people we need to keep up this tremendous growth and yet keep our standards high enough that these people are able to capitalize on the growth opportunities they get.



Sharon Bernier, Cost Analyst, Commercial Systems Division, Phoenix

I'm one of those people who can testify first-hand about the very people-oriented way Intel does business. My husband and I had lived in Portland for some time when I took my first Intel job a little less than a year ago. Then my husband got a chance for a job as a school principal in Phoenix. Intel gave me incredible cooperation in helping me get reassigned to a job here.

My job as a cost analyst in Portland involved gathering data from manufacturing, purchasing and other groups, determining overhead costs involved and telling the product engineering groups and marketing groups what the cost of producing a particular product was going to be.

And it isn't just my job that I like here. There's a tremendous openness about Intel. If you have a complaint, people listen.

I enjoy working at this company, even though I've been here less than a year. Finance believes in moving its people around to get them broader experience and I've learned a great deal in the short time I've worked here. I just hope that, as we go into the 1980's, we'll be able to continue hiring the right kinds of people.



Danny Sparovihic, Design Engineer, MPO, Haifa, Israel

"The teamwork around here is really quite natural."

I came to work for Intel right from college and I've worked here for two years now. My job is to design large scale integrated circuits. I follow the design from inception to a fully functional stage where it enters production. Mostly I work on microprocessor peripherals; occasionally I help out with a microprocessor design.

Generally the design definition comes from Santa Clara. They come up with the idea of generally what is needed, whether it's an improve-

ment of an existing design or a new design. Then my boss comes to me and tells me to write the specification; once the specification is approved, we begin the project. We start by defining the functional blocks of the system and the required interface. The next step, once the blocks are partitioned and designed, is to translate the simulated circuits into logic elements, such as OR and AND gates. We simulate them on a computer using a logic simulator program. Once we have the main blocks defined, we have

to plan where the blocks will physically sit on the chip. We have to figure out how the power supply will work. Then we give the different designs to the mask designers to lay out all of the circuitry on a mask-by-mask level, to show us how it will look physically.

Finally the wafer arrives and an evaluation is done. If everything works, great, otherwise, it's back to the lab to work out the bugs.

The teamwork around here is really quite natural. Everybody is doing his or her job and knows what needs to be done.

We can rely upon one another; it works very nicely.

Most of the success of Intel is due to the organization. We would have no chance to be in the marketplace, in the position that we are, without the management that we have.

Another factor that helps Intel succeed is the Management by Objectives approach.

Intel has a good image in Israel. The Israeli people I know like the way Intel sells its products, the way we present ourselves and the way we train our customers.

Cheryl Pruss, Shift Supervisor, Fab III



These five people—Alan Patterson, Cheryl Pruss, Joanna Hardesty, Norma Lias and Bob Wigger—have a combined total of 30 years' experience at Intel and 40 in the semiconductor manufacturing business. What follows on the next four pages is a synthesis of their feelings about Intel, their jobs and the role of water fabrication in the company's total picture.

Alan Patterson, Engineering Manager, Fab V



ABOUT THEIR JOBS:

Patterson: As I perceive it, we have an Intel Fab culture of our own. Our groups seem to be given challenges that are never-ending. The minute you get one problem straightened out, you have another one appear. As a result, we get known as a group that is very hard-working and dedicated to its work. The

nature of the work is that you have to fight fires when they erupt, not tomorrow.

Pruss: My job as a shift supervisor is to coordinate the work flow from one area to another, utilizing the available equipment and people in spite of emergencies. That's challenging, exciting work. I was the first operator

hired at Fab III in Livermore and I've learned and grown a great deal in this job.

Hardesty: In my role as a lead person, my job includes assigning operators to work in specific areas and assisting them with their set-ups to run tests on product. I also help

them if they run into problems and, if we can't solve them I act as the liaison with engineering and maintenance personnel.

Lias: I'm responsible for scheduling product for shipment during a month. That requires me to gather data, publish a schedule and then follow through closely week by week to make sure that die yields and other critical points in the process that might be capacity-

constrained are working well. My schedule of product to be manufactured and shipped is in response to a marketing forecast of what's needed, and takes into account Production Planning's input as to what can really be done.

Patterson: The bottom line for us is to produce the highest die yields possible. We as a company have to sell parts to our customers to make



money. My job is to see that we do that at high yield levels with the result that we have continuing high profits. If we drop the ball in Fab, we have nothing to sell to our customers. We feel like we're the people who build the things that make the money. Even if we do a really good job, a significant portion of each wafer has bad dice. We're always striving for perfection and doing it at the frontier of state-of-the-art technology.

ABOUT INTEL:

Lias: Meetings are almost a way of life around here. Sometimes, it's a challenge to find time between meetings to disseminate the data you've been given to others who need it. But the meetings are very valuable. We have a meeting of the manufacturing staff every day to identify and resolve production problems.

There are four of us in the meeting and we have to decide who owns the problem. Usually, that's O.K. because if no one clearly owns it, one of us assumes it. If it's a manufacturing problem in our area, one of us owns it; it's that simple.

Wigger: One of the things we have going for us in Fab is the image of management people being more like human beings than they are other places. At other companies where I've worked, the top guys wander around in groups, wearing three-piece suits, on inspection tours. At Intel, they have personal contact with people at a number of levels and that makes us all work a little harder. But I have to

admit it sometimes gets a little frustrating working in Fab. When you realize that we could probably sell twice as much as we're producing, you get a feeling of frustration of not being able to produce more.

Pruss: In spite of the problems and pressures, one of the things that makes the job worthwhile after more than seven

years here is the way the company encourages individual growth. There are a lot of people around you interested in stimulating you to reach your potential, instead of erecting roadblocks along the way.



Norma Lias, Production Control Manager, T-1



ABOUT CHANGE AND GROWTH:

Pruss: Anyone who's been here very long has seen lots of changes. But aside from the big, obvious ones, the one I've noticed most in my position is the relationship of our production operators to other people. When I started with Intel, the only way to get ahead or feel

your worth was to get out of production and become a technician or something. Now, with the recent job restructuring, we have career paths for people who want to be, and remain, excellent operators.

Patterson: As we've grown over the past few years, the caliber of people has stayed consistently high. The thing that we had to do the most changing in was communications. To keep

people working together on the same road, we had to improve our communications. One way we've done that in the Fab areas is by setting up regular meetings of Process Area Groups (PAGs). These groups cut across geographic lines and let people share ideas and learn from each other. They're extremely valuable tools.

Lias: There's been an almost continual improvement in our ability to communicate as the company has grown larger. Identifying the right person to talk to about a subject is more difficult, but our divisionalization has made each group like a small company within the company. I was the 379th employee hired by Intel, so I've seen some real changes in the company. But one thing hasn't changed: everyone still feels like "the buck stops here".

ABOUT THE 1980'S:

Pruss: As we go into the 1980's, one of our biggest challenges is to get everyone working together more closely. "It's not my problem" is something we shouldn't hear very much. We don't now, but we need to keep that in mind in the years ahead.

Wigger: One of our biggest challenges is going to be hiring, training and assimilating people into our environment at the continuing pace of growth we've seen in the 1970's. We have to do that while keeping the close-knit, family type of work environment within the large company.

Lias: As we grow larger and larger during the 1980's, I think it's important that we are careful to follow through on people problems. We have to ask ourselves if we're doing all we can to attract and keep better-caliber people all the time. And we have to recognize that we need really skilled help and that means we have to be aware of their problems and concerned about them as people.



Tony Ng, Plastic Manufacturing Manager,
Manila, Republic of
Philippines

Joe Singhdeo, Coordinator of Offshore Assembly and Manager of Santa Clara Assembly Engineering

Tony Gibbs, Engineering Manager, Barbados

Michael Ng, Manager, Assembly Engineering, Penang

Tony Reyes, Manager, Hermetic Manufacturing,
Manila, Republic of
Philippines



Singhdeo: Every month, we build millions of integrated circuit packages

at our three offshore assembly plants and we do it almost exclusively with local nationals at all levels of plant management and activity. In fact, in all three of our offshore plants, there are only two U.S. expatriates.

Tony Ng: You might think that being located so far from the company headquarters in Santa Clara would pose coordi-

nation difficulties for us. Instead, it works to our advantage. Andy Grove

and others in top management are very accessible; they're the ones we see visiting our plants and listening to our problems. If things aren't going quite as well as we'd like, we can get top management's attention easily and directly.

Reyes: That doesn't mean, though, that we're out of the woods on coordination in general. All of us feel like we have a sort

of permanent airline ticket, we do so much traveling. For example, I've been spending a lot of time in Barbados helping get that plant off the ground.

Gibbs: I've only been with Intel a short while, but I am very impressed by the way I am getting lots of help solving the usual start-up problems at Barbados. Everyone helping me has gone through the same thing at their own plant and that means

that I'm getting advice from real experts.

Michael Ng: One of the problems we all have in common and that we talk about together quite often is training. Not so much of our production people, where we have a good program to teach them and follow up to make sure they've learned well, but of engineers. It's great that Intel doesn't try to be a colonial company with Americans in the top management positions

the way lots of other companies do when they build offshore plants, but it's not without problems. It's tough to find local engineers with training and experience.

Reyes: One of the things that makes Intel attractive to local engineering talent, aside from the management opportunities, is the fact that we do some real engineering problem-solving at our plants. For example, our hermetic packaging is probably the best of any-

one in the merchant market and much of that progress was achieved in Manila by our local engineering staff.

Singhdeo: That's a good point. As the management at these offshore plants gets more mature and experienced, we try to give them more and more involvement in the engineering decisions that affect them.



*Murray Woods, Manager for
Process Reliability Quality
Assurance Department*

*"The company looks for
and thrives on innova-
tion and change."*

We are a company which is dynamic, innovative. The company looks for and thrives on innovation and change, as opposed to lots of other companies which resist change.

Since we thrive on being a leadership company, we put heavy emphasis in the development areas.

Another thing is that we make sure, not only that the product is announced on time but that it's manufacturable, and our methods for doing that are very good. We don't just develop something; we get manufacturing input from the conception stage to the final production of a new product.

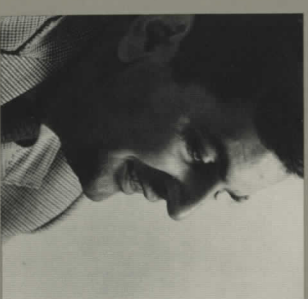
People throughout the company know what is happening and where we should be going. Communication is very open and frequent. Also, we always go into a project with the idea that it's going to succeed. We come up with a complete schedule right at the beginning. All milestones such as test patterns, design starts, product availability are scheduled at the beginning.

We assume we have the responsibility to make something happen. In our teamwork situations, there's someone running the show and when he or she sets things up, people get individual assignments. From that point on, people don't just pay lip service to their responsibilities, they really feel them.

Because Intel is a very open company, people care about what they do. If you make a mistake, you get told about it, and that's good. You don't want to be wandering around thinking you're doing a good job and have your boys think you're not.

Divisionalization vs. centralization is our largest challenge as we enter the 1980's. As we keep getting bigger and bigger, the decisions about what's divisional responsibility and what needs to be centralized in the corporation get tougher and tougher. We've come to a place now where some duplication of effort between divisions is needed for efficiency, but there still needs to be lots of cooperation so that we don't end up with wasteful duplication. Another aspect of that, which affects me directly, is that the larger we get the more variety I

have in my job and the more flexibility we all need. We get involved in a lot of different kinds of problems—circuits, materials, you name it—and we've got to be able to juggle a number of different disciplines at the same time.



Jean-Claude Caraes, Systems Sales Manager, Paris, France

"The products are one to two years ahead of the competition."

My opinion of Intel's products is the same now as when I started with the company five years ago. I think that we are one to two years ahead of the competition.

The function of a Systems Sales Manager is to be responsible for sales and marketing for all

microcomputer and memory systems. A great deal of marketing and sales activity goes into organizing the distributors and setting up a sales strategy with them.

A typical day for me in-

volves visiting customers with our field sales engineers. With our existing customers, the questions usually revolve around specifications or delivery.

With our new customers, the task is to convince them of our philosophy and way of doing business.

Our customers are usually convinced because of our technical leadership and *de facto* industry standards.

I believe there are two reasons for Intel's success.

First are the products.

They are state-of-the-art, technology leaders, yet available in production.

Second, Intel people are motivated to sell and support Intel products. Being the leader in technology, in fact, means having to pioneer again and again and to motivate new

people on new products and new things.

I see two challenges ahead for Intel. The first one is obvious—to stray

the leader in technology. I believe we have a good chance. The second one is to develop a systems image. This entails more

than selling a board product like a component, it means developing more products, mainly in the computer software area.

I work for Intel

primarily because of the motivation which comes because I can communicate with management to set up strategies and be

sure that when I do something that I'm supported and everything is going well. When you

are supported, you are ready to work. I think that I am part of a team in the sense of opportunity.

As a Field Sales Engineer, I feel like I'm part of the company's executive group at the same time that I'm an individual business person handling my own accounts. I set personal goals and strategies and in addition I'm responsible to Intel and to my customers. I'm personally responsible for supporting my customer base, obtaining sufficient sales volume each month, providing ample contribution to the company's profits and contributing to the company's sustained business growth.

One of the interesting things about Intel as a company is that we're never standing still. The opportunities for advancement, both in income and in responsibility,

are excellent and as Intel approaches one billion dollars in annual sales, they will abound.

From my perspective, there are three major things which contribute to Intel's success as a company. First, the amount of revenue poured into R&D. You've got to create your own wealth in this market and we keep taking advantage of R&D to help get us into new markets such as telecommunications, military and industrial applications. Second, our product policies result in our being out in front with new technologies. Finally, field sales is set up as almost a line organization. The result of that is that we are able to make quick decisions; our customers respect Intel's ability to solve problems for them quickly and that's been a tremendous help to our success.

Another major factor in Intel's growth and success as a place to work from my viewpoint is the type of people we've recruited. The people I work with are super professional. They're frequently low-key in their style, but they can be aggressive when we come out with new products and technologies.



Al Garcia, Field Sales Engineer, Boston

"One of the interesting things about Intel is that we're never standing still."

Thomas: I view my job as field applications engineer as being a member of the sales force, supporting sales by providing technical information for customers, conducting seminars, and conducting troubleshooting calls.

One of the things that makes this job fun is the way Intel is able to surprise the engineering world every six months with innovative products.

As a result of our reputation for new product development, we have a lot of customers who call us first on most subjects regarding microcomputers and memories. We have a great many customers who have such faith in us because of past performance that they're essentially putting their company in the care of ours.

As we go into the 1980's, one thing we're going to have to do is to start letting Field Application Engineers specialize. There's no way one person can be an expert in all of the products in our ever-broadening line.

We've recently defined a new organizational structure that will help us to do that specializing.

Haas: My main responsibilities are to supervise the application engineers

in Germany. Presently, we have five offices including our headquarters in Munich.

When I come to the office in the morning, the first thing I do is read the mail and telexes. Then usually the telephone begins to ring. I get calls mainly from our customers and our sales engineers. Customers call for technical design support, such as when they have questions about designing with our products.

While I spend a lot of time reading and being on the telephone, usually I spend about thirty percent of my time doing customer presentations. I tell the customers what our new products are and give them an overview of the whole range of components and other products. I also try to reassure them that they are in the right stream, that by

going with Intel they buy not only the component or the products, but they buy the philosophy behind it. The philosophy is to have a concept, to have a very broad line of products from single chip microcomputers to the high end microcomputers and from components to boards and complete systems. This includes both the hardware and the software.

I have been with Intel now for five years and I like the growth of the company, the management and the products.



Dieter Haas, Applications Manager, Intel-Munich



Sue Thomas, Field Applications Engineer, Washington, D.C.





*Katsuyoski Wakashima,
Customer Services
Manager-LKK (Tokyo, Japan)*

*"The customer looks at
Intel as a very well-
organized company."
—Wakashima*



*Mike Neale, Customer
Services Manager-UK
(Swindon, England)*



Neale: I've been in customer services now for 10-15 years in various electronic companies here in the UK. I must honestly say this is the most difficult position I have ever had. Intel is in an enviable position in some ways, in having products which the customer is anxious to buy. Intel is the most dynamic company I've ever worked for. I find it totally bloody hard work, I've never worked so hard in my life, but I wouldn't have it any other way.

Wakashima: I work with customers, the OEMs and end-users, and I find that they feel the image of Intel is very good. The customer looks at Intel as a very well organized company. I've heard that from many, many people and they think our products are the best.

Neale: Intel is looked upon as a technological leader here in Great Britain, a fast growing company where most of the standard British stable industries such as the automobile industry, steel, and ship building are in

decline. Intel is looked upon as being one of the companies which is growing in the UK. I think that the image of Intel is one of technical excellence in the marketplace.

Wakashima: My main responsibility is that I take care of all the customers' orders from the receipt of the orders until final delivery to the customer. It's a big job.

Neale: My particular function is to provide a support facility for our sales department and to give support to our customers as well. We have

a sales team on the road selling our products. Once those orders come into this company, it is my responsibility to get that ordered product to the customer when he wants it.

What I specifically like about Intel is its freedom of management. I've never experienced that before to such a degree. It's because we are working here for a young company. Intel as an American company is very different here. Everybody employed at Intel is encouraged to establish their own milestones and key results.

CONSOLIDATED STATEMENT OF INCOME Years ended December 31, 1979 and 1978
(Thousands—except per share amounts)

	1979	1978
NET REVENUES	\$662,996	\$400,620
Cost of sales	313,106	196,376
Research and development	66,735	41,360
Marketing, general and administrative	131,349	75,564
Operating costs and expenses	511,190	313,300
Income before interest on borrowed funds and taxes on income	151,806	87,320
Interest on borrowed funds	2,758	769
Income before taxes on income	149,048	86,551
Taxes on income	71,244	42,237
NET INCOME	\$ 77,804	\$ 44,314
Earnings per capital and capital equivalent share	\$ 3.59	\$ 2.16

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY Years ended December 31, 1979 and 1978
(Thousands)

	Capital Stock			
	Number of Shares	Amount	Retained Earnings	Total
Balance at December 31, 1977	19,346	\$58,611	\$ 90,331	\$148,942
Repurchase and retirement of outstanding capital stock	(8)	(18)	(201)	(219)
Proceeds from sales of shares through employee stock plans and tax benefit thereof	578	12,025	—	12,025
Net income	—	—	44,314	44,314
Balance at December 31, 1978	19,916	70,618	134,444	205,062
Proceeds from sales of shares through employee stock plans and tax benefit thereof	590	19,869	—	19,869
Acquisition of MRI, Inc.	186	4,562	(4,108)	454
Net income	—	—	77,804	77,804
Balance at December 31, 1979	20,692	\$ 95,049	\$208,140	\$303,189

See accompanying notes.

ASSETS	1979	1978
Current assets:		
Cash and cash equivalents	\$ 19,846	\$ 12,278
Short-term investments, at cost which approximates market	14,305	15,995
Accounts receivable, net of allowance for doubtful accounts of \$4,820 (\$3,091 in 1978)	139,177	98,183
Inventories	78,733	51,715
Prepaid taxes on income and other	30,641	18,254
Total current assets	282,702	196,425
Property, plant and equipment:		
Land and buildings	84,961	54,419
Machinery and equipment	168,047	114,740
Construction in progress	41,129	32,411
Equipment leased to others	9,498	9,946
LESS accumulated depreciation and amortization	303,635	211,516
	86,244	51,376
Net property, plant and equipment	217,391	160,140
TOTAL ASSETS	\$500,093	\$356,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 19,124	\$ 43,638
Accounts payable	29,972	22,091
Deferred income on shipments to distributors	41,644	26,045
Accrued liabilities	34,105	19,203
Profit sharing retirement plan accrual	8,100	—
Income taxes payable	34,949	18,298
Total current liabilities	167,894	129,275
Deferred taxes on income	18,866	14,328
Unamortized investment tax credits	10,144	7,900
Shareholders' equity:		
Capital stock, no par value, 37,500,000 shares authorized, shares issued and outstanding 20,692,000 (19,916,000 at December 31, 1978)	95,049	70,618
Retained earnings	208,140	134,444
Total shareholders' equity	303,189	205,062
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$500,093	\$356,565

See accompanying notes.

	1979	1978
Working capital provided by operations:		
Net income	\$ 77,804	\$ 44,314
Charges to income not involving the current use of working capital:		
Depreciation	40,375	24,134
Non-current portion of deferred taxes on income and deferred investment tax credits	6,782	9,577
	124,961	78,025
Working capital provided by proceeds from sales of shares through employee stock plans and tax benefits thereof, net of repurchased shares in 1978	19,869	11,806
	144,830	89,831
Working capital used for net additions to property, plant and equipment	(96,681)	(104,157)
Working capital effect of MRI, Inc. at acquisition	(491)	—
Increase (decrease) in working capital	\$ 47,658	\$ (14,326)
Increase (decrease) in working capital by component:		
Cash and cash equivalents	\$ 7,568	\$ 6,287
Short-term investments	(1,690)	(17,477)
Accounts receivable	40,994	41,732
Inventories	27,018	18,038
Prepaid taxes on income and other	12,387	6,716
Notes payable	24,514	(43,638)
Accounts payable	(7,881)	(9,653)
Deferred income on shipments to distributors	(15,599)	(11,710)
Accrued liabilities	(14,902)	(3,982)
Profit sharing retirement plan accrual	(8,100)	—
Income taxes payable	(16,651)	(639)
Increase (decrease) in working capital	47,658	(14,326)
Working capital at beginning of year	67,150	81,476
Working capital at end of year	\$ 114,808	\$ 67,150

See accompanying notes.

ACCOUNTING POLICIES

Basis of presentation The consolidated financial statements include the accounts of Intel Corporation and all of its subsidiaries. In February 1979, Intel acquired all of the outstanding shares of MRI, Inc., a supplier of software products for data base management, in exchange for 186,000 Intel capital shares. The transaction was accounted for as a pooling of interests; however, prior year financial statements were not restated as the amounts involved were immaterial.

Inventories Inventories are stated at the lower of cost or market. Cost is on a first-in, first-out basis for materials and purchased parts and is computed on a currently adjusted standard basis (which approximates average or first-in, first-out cost) for work in process and finished goods. Market is based upon estimated realizable value reduced by normal gross margin. Inventories at December 31, are as follows:

	1979	1978
Materials and purchased parts	\$26,572	\$19,212
Work in process	39,732	25,424
Finished goods	12,429	7,079
	\$78,733	\$51,715

Property, plant and equipment Property, plant and equipment are stated at cost. Depreciation is computed for financial reporting purposes principally by use of the straight-line method over the estimated useful lives of the assets. Accelerated methods of computing depreciation are used for tax purposes.

Deferred income on shipments to distributors Certain of Intel's sales are made to distributors under agreements allowing right of return and price protection on merchandise unsold by the distributors. Because of rapid technological obsolescence and frequent sales price reductions in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

Investment tax credits Investment tax credits are accounted for using the deferral method whereby credits are treated as a reduction of the U.S. federal tax provision ratably over the useful lives of the related assets. Approximately \$2,600 and \$1,500 of investment tax credits were amortized in 1979 and 1978, respectively.

Earnings per capital and capital equivalent share

Earnings per share are computed using the weighted average number of capital and capital equivalent shares outstanding. Capital equivalent shares consist of shares issuable under employee stock option plans computed by the treasury stock method.

Capital stock In April 1979, Intel increased its authorized shares from 25,000,000 to 37,500,000 and declared a three-for-two stock split. A five-for-four stock split was declared in August 1978. Shares and per share amounts reported herein have been restated to reflect the effects of these stock splits.

NOTES PAYABLE

Notes payable at December 31, 1979 include \$14,000 which are borrowings under established foreign and domestic lines of credit which approximate \$140,000 at December 31, 1979. The unused portions of lines of credit generally are subject to withdrawal at the banks' option. The following information relates to aggregate bank borrowings during the two years ended December 31, 1979.

	1979	1978
Maximum outstanding at any month-end	\$38,133	\$43,638
Average daily borrowings outstanding	\$30,936	\$11,297
Weighted average interest rate at year-end	9.88%	9.49%
Weighted average interest rate during the year (actual interest expense divided by average daily borrowings outstanding)	8.91%	6.81%

Intel complies with compensating balance requirements equal to 10% of certain of these lines of credit. Such compensating balance requirements do not legally restrict Intel's use of cash.

TAXES ON INCOME

Taxes on income are comprised of the following:

	1979	1978
Federal:		
Current	\$47,107	\$21,131
Deferred (prepaid)	(4,715)	2,200
Investment tax credits deferred—net	2,244	3,962
	44,636	27,293
State:		
Current	11,042	6,532
Deferred (prepaid)	(1,209)	(827)
	9,833	5,705
Foreign:		
Current	16,088	10,822
Deferred (prepaid)	687	(1,583)
	16,775	9,239
	\$71,244	\$42,237

Deferred (prepaid) taxes on income result from timing differences in the recognition of certain items for tax and financial reporting purposes. Timing differences relate primarily to franchise tax accruals, deferred income on shipments to distributors and undistributed income of Domestic International Sales Corporations (DISC) and foreign subsidiaries. Intel provides on a current basis, the estimated U.S. income taxes which would be incurred upon distribution of earnings of its DISC subsidiaries and, to the extent that such amounts are not deemed to be permanently invested, of its foreign subsidiaries.

'Investment tax credits deferred—net' represents the difference between the amount of investment tax credit used to reduce current federal income taxes and the amount amortized for financial statement purposes.

Income taxes payable were reduced and capital stock was increased by \$7,454 in 1979 (\$4,576 in 1978) as a result of tax deductions arising from stock plan transactions.

Intel's U.S. income tax returns for 1975, 1976 and 1977 are presently under examination by the Internal Revenue Service. Management does not anticipate any material effect upon Intel's results of operations or financial position as a result of these examinations.

EMPLOYEE BENEFIT PLANS

Stock option plans Intel has two non-qualified stock option plans under which officers and key employees may be granted options to purchase shares of Intel's authorized but unissued capital stock at not less than 85% of the fair market value at date of grant. Generally, options become exercisable at the rate of 25% per year commencing one to two years from the date of grant. Options expire no later than ten years from the date of grant. No material charges have been made to income in accounting for options. Proceeds and income tax benefits realized by Intel as a result of transactions in these plans have been credited to capital stock. In November 1978, an additional 3,000,000 shares were reserved by the Board of Directors for issuance under the 1979 Non-Qualified Stock Option Plan. This plan was approved by shareholders in April 1979. Additional information with respect to employee stock options is as follows:

	Options Available for Grant	Number	Aggregate Value	Price Per Share
	(Thousands)			
December 31, 1977	720	2,455	\$41,983	\$ 2.49-\$36.63
Options granted	(1,131)	1,131	35,135	\$20.80-\$40.00
Options exercised	—	(453)	(5,055)	\$ 2.49-\$28.80
Options cancelled	628	(628)	(17,800)	\$ 2.49-\$40.00
Additional shares reserved for granting under non-qualified plan	3,000	—	—	—
December 31, 1978	3,217	2,505	\$54,263	\$ 2.49-\$38.67
Options granted	(864)	864	42,635	\$36.00-\$69.75
Options exercised	—	(442)	(7,942)	\$ 2.49-\$58.25
Options cancelled	239	(239)	(6,780)	\$ 2.49-\$63.25
December 31, 1979	2,592	2,688	\$82,176	\$ 2.49-\$69.75
Options exercisable at December 31, 1979		786	\$13,866	\$ 2.49-\$63.50
1978		684	9,512	\$ 2.49-\$38.67

Intel also has a separate stock compensation plan for key employees of one of its subsidiaries whereby these employees may acquire common stock of the subsidiary; however, Intel is entitled to reacquire the subsidiary stock in exchange for an estimated 70,000 shares of Intel capital stock which are reserved at December 31, 1979. Approximately \$3,300 was charged to income during 1979 under this plan.

Stock participation plan Under this plan qualified employees are entitled to purchase shares of Intel's capital stock at 85% of the fair market value at certain specified dates. Of the 844,000 shares authorized to be issued under this plan, 482,000 shares are available for issuance at December 31, 1979. Employees purchased 145,000 shares in 1979 (126,000 in 1978) for \$4,473 (\$2,394 in 1978).

Profit sharing retirement plan Effective July 1, 1979, Intel adopted a profit sharing retirement plan for the benefit of qualified employees. The plan, which is subject to IRS approval, is designed to provide employees with an accumulation of funds at retirement and provides for annual contributions to trust funds based on a formula which considers return on both equity and revenues. Individual employee entitlements vest five years after each plan year or upon retirement and are based upon accumulated fund assets. It is Management's intention to fund annual contributions on a current basis.

The amount charged against 1979 pre-tax profits for the period July 1 through December 31, 1979 was approximately \$8,000. It is estimated that had the plan been in effect throughout the years 1979 and 1978, the amounts which would have been charged against pre-tax profits would have approximated \$12,500 and \$5,600, respectively.

COMMITMENTS

Intel leases a portion of its capital equipment and certain of its facilities under leases which expire at various dates through 2033. Rental expense was \$8,269 in 1979 and \$4,538 in 1978. Minimum rental commitments under all noncancelable leases with an initial term of one year or more are payable as follows: 1980-\$4,383; 1981-\$3,258; 1982-\$1,999; 1983-\$1,137; 1984-\$950; 1985 and beyond \$3,070.

Commitments for construction or purchase of property, plant and equipment approximate \$112,000 at December 31, 1979. Specific contracts for a portion of these commitments have not yet been signed.

SUPPLEMENTAL INFORMATION (unaudited)

Quarterly information Quarterly information for the years ended December 31, 1979 and 1978 is presented on page 29.

Constant dollar information An adjusted financial summary reflecting the effects of general inflation as required by FAS No. 33 is presented on page 31.

Replacement cost information As required by the Securities and Exchange Commission, Intel will present unaudited replacement cost information in its annual report on Form 10-K. The information indicates that the replacement cost of productive capacity would exceed the amounts originally incurred to acquire such assets and that depreciation based on replacement cost exceeded by an immaterial amount the depreciation based on historical cost.

INDUSTRY SEGMENT REPORTING

Intel and its subsidiaries operate in one dominant industry segment and are engaged principally in the design, development, manufacture and sale of LSI (large scale integrated) semiconductor components and systems incorporating these components. Operations are conducted both within and outside of the United States.

Outside of the United States, assembly and test facilities are maintained in Barbados, Malaysia and the Philippines while sales subsidiaries are located throughout Europe and other parts of the world (Other). Summary balance sheet information for operations outside the United States at December 31 is as follows:

	1979	1978
Current assets	\$75,300	\$52,938
Current liabilities	33,314	28,887
Net property, plant and equipment	18,104	11,559

Geographic information for the two years ended December 31, 1979 as required by FAS No. 14 is as follows:

	NET REVENUES			
	Products Sold Within			Total
	U.S.	Europe	Other	
1979 Net revenues of:				
U.S. operations	\$418,439	\$ 57,250	\$15,938	\$491,627
European operations	—	122,599	—	122,599
Other operations	—	—	48,770	48,770
1979 Net revenues	\$418,439	\$179,849	\$64,708	\$662,996
1978 Net revenues of:				
U.S. operations	\$259,048	\$ 43,247	\$12,723	\$315,018
European operations	—	59,107	—	59,107
Other operations	—	—	26,495	26,495
1978 Net revenues	\$259,048	\$102,354	\$39,218	\$400,620

Transfers between geographic areas are accounted for at amounts which are generally above cost and consistent with rules and regulations of governing tax authorities. Such transfers, which are eliminated in the consolidated financial statements, are as follows:

	1979	1978
United States	\$110,279	\$52,641
Europe	5,096	3,497
Other	23,902	17,193

OPERATING INCOME

	1979	1978
Operating income allocable to:		
U.S. operations	\$134,189	\$73,999
European operations	26,672	14,924
Other operations	8,527	7,703
Unallocated:		
General corporate expenses and other	(17,582)	(9,306)
	\$151,806	\$87,320

Operating income is net revenues less operating expenses and does not include an allocation of general corporate expenses and interest expense.

	IDENTIFIABLE ASSETS	
	1979	1978
Identifiable assets of:		
U.S. operations	\$370,133	\$270,851
European operations	47,859	29,463
Other operations	45,545	35,038
General corporate assets, net	36,556	21,213
Total assets	\$500,093	\$356,565

Identifiable assets are assets that are identifiable with the operations in each geographical area. Corporate assets are principally cash, short-term investments and prepaid taxes on income.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders

Intel Corporation

We have examined the accompanying consolidated balance sheets of Intel Corporation at December 31, 1979 and 1978, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Intel Corporation at December 31, 1979 and 1978, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Jose, California

January 11, 1980

FINANCIAL INFORMATION BY QUARTER (unaudited)

(Thousands—except share data)

	Quarter Ended			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31
1979				
Net revenues	\$195,832	\$176,637	\$155,229	\$135,298
Cost of sales	89,590	84,106	73,803	65,607
Research and development	20,743	17,816	14,841	13,335
Marketing, general and administrative	40,793	34,225	30,132	26,199
Interest on borrowed funds	642	520	710	886
Taxes on income	21,061	19,108	17,082	13,993
Net income	\$ 23,003	\$ 20,862	\$ 18,661	\$ 15,278
Earnings per capital and capital equivalent share	\$ 1.04	\$.96	\$.87	\$.72
Market price range (A) High	\$ 71.50	\$ 64.50	\$ 52.00	\$ 43.00
Low	\$ 57.50	\$ 47.50	\$ 40.38	\$ 32.62
1978				
Net revenues	\$119,818	\$106,864	\$ 93,682	\$ 80,256
Cost of sales	58,148	52,864	45,954	39,410
Research and development	11,900	11,017	9,803	8,640
Marketing, general and administrative	23,062	20,388	17,057	15,057
Interest on borrowed funds	397	372	—	—
Taxes on income	12,840	10,845	10,185	8,367
Net income	\$ 13,471	\$ 11,378	\$ 10,683	\$ 8,782
Earnings per capital and capital equivalent share	\$.65	\$.55	\$.52	\$.44
Market price range (A) High	\$ 37.62	\$ 41.00	\$ 32.88	\$ 24.38
Low	\$ 30.00	\$ 28.00	\$ 22.12	\$ 20.50

(A) Intel stock is traded in the over-the-counter market and is quoted on NASDAQ and in the Wall Street Journal and other newspapers. Intel has never paid cash dividends and has no present plans to do so.

FINANCIAL SUMMARY For the five years ended December 31, 1979
(Thousands-except, per share amounts)

	1979	1978	1977	1976	1975
Net revenues	\$662,996	\$400,620	\$282,549	\$225,979	\$136,788
Cost of sales	313,106	196,376	143,979	117,193	67,649
Research and development	66,735	41,360	27,921	20,709	14,541
Marketing, general and administrative	131,349	75,564	47,503	36,620	21,386
Interest on borrowed funds	2,758	769	—	—	—
Taxes on income	71,244	42,237	31,430	26,243	16,938
Net income	\$ 77,804	\$ 44,314	\$ 31,716	\$ 25,214	\$ 16,274
Earnings per capital and capital equivalent share	\$ 3.59	\$ 2.16	\$ 1.59	\$ 1.27	\$.83
Capital and capital equivalent shares used in per share calculations	21,677	20,541	19,976	19,914	19,500

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL SUMMARY

A summary of 1979 and 1978 period-to-period increases is shown below:

	Increase from prior period	
	1979*	1978
Net revenues	\$262,376 65.5%	\$118,071 41.8%
Cost of sales	116,730 59.4%	52,397 36.4%
Research and development	25,375 61.4%	13,439 48.1%
Marketing, general and administrative	55,785 73.8%	28,061 59.1%
Interest on borrowed funds	1,989 —	769 —
Taxes on income	29,007 68.7%	10,807 34.4%
Net income	33,490 75.6%	12,598 39.7%

*Costs for 1979 include a \$8.0 million provision for a profit sharing retirement plan which was adopted as of July 1, 1979.

Net revenues in 1979 were at record levels. The acceleration in revenue growth resulted from continuing strong product demand coupled with increased capacity. Intel's growth in 1979 was constrained by production capacity which did not increase commensurate with increased demand.

Cost of sales as a percentage of net revenues was 47.2% in 1979, compared to 49.0% and 51.0% in 1978 and 1977, respectively. This continued improvement in gross margins is the result of decreased unit manufacturing costs for many products coupled with a change in product mix toward new, more sophisticated and higher margin products. The margin effect of decreased unit manufacturing costs was only partially offset by sales price reductions.

Research and development costs in 1979 were 10.1% of net revenues, compared to 10.3% in 1978 and 9.9% in 1977. Management continues its commitment of significant resources to develop new products and technologies which are considered necessary to retain product leadership.

These new products and technologies continue to increase in sophistication and, as a result, require higher levels of expenditures due both to increases in the staff of engineers and scientists engaged in research and development efforts, and to the increased cost of supporting them with modern facilities and equipment.

Marketing, general and administrative expenses for 1979 were 19.8% of net revenues compared to 18.9% in 1978 and 16.8% in 1977. The year-to-year increases are a result of expanded marketing efforts necessitated by increased competition in some areas and additional support required because of the increasing complexity and sophistication of products. In addition, administrative costs have increased as Intel has grown and diversified geographically.

Taxes on income as a percentage of pre-tax profits have declined over the last several years. The effective tax rate in 1979 was 47.8% compared with 48.8% in 1978 and 49.8% in 1977. The decrease in 1979 is principally due to a reduction in the U.S. Federal rate to 46% from 48% while the decrease in 1978 was primarily attributable to increased amounts of foreign income and amortization of investment tax credits.

	1979	1978	1977	1976	1975
Net revenues	\$660,589	\$445,316	\$338,125	\$287,875	\$184,307
Cost of sales	323,400	*	*	*	*
Research and development	67,149	*	*	*	*
Marketing, general and administrative	131,088	*	*	*	*
Interest on borrowed funds	2,776	*	*	*	*
Taxes on income	70,961	*	*	*	*
Net income	\$ 65,215	*	*	*	*
Earnings per capital and capital equivalent share	\$ 3.01	*	*	*	*
Market price per common share at year end	\$ 67.50	\$ 33.00	\$ 24.00	\$ 31.47	\$ 25.78
Purchasing power loss on net monetary items held during the year	\$ 1,963	*	*	*	*
Net assets at year end	\$331,092	*	*	*	*
Average annual Consumer Price Index—Urban (CPI-U)	217.2	195.4	181.5	170.5	161.2

* Information not required

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE ADJUSTED FINANCIAL SUMMARY

The adjusted financial summary is presented in accordance with the requirements of FAS No. 33. Data included is historical financial information which has been restated to monetary units having the same general purchasing power and referred to as constant dollars. FAS No. 33 also provides for the future presentation of current cost information which is not included herein because it was impracticable to gather the necessary data in time for the printing of this report.

The constant dollar summary is a form of data presentation designed to depict the effects of general inflation which are not apparent through conventional financial reporting. It is one of several alternative methods which have been proposed for this purpose and accordingly the superiority of constant dollar reporting over other methods will continue to be evaluated. The following explanatory comments are provided to assist in an understanding of the summary.

Net revenues for 1975 through 1978 are restated into average 1979 constant dollars by multiplying historical dollars times the estimated 1979 average CPI-U and dividing by the average CPI-U for each of the years.

Constant dollar information for 1979 is calculated principally by using historical dollar amounts and average CPI-U indices for each of the four quarters. Constant dollar depreciation expense for 1979 is calculated by restating the historical cost of assets acquired in prior years into average 1979 dollars and calculating depreciation thereon using the same estimated useful lives. Depreciation expense included in 1979 costs is \$38,145 on a historical basis and \$44,210 on a constant dollar basis. Inventory amounts included in quarterly cost of sales relate principally to items acquired during the preceding quarter. No adjustments have been made to taxes on income for deferred taxes that might be deemed to arise because of differences between income on a constant dollar basis and income reported for tax purposes.

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- Andrew S. Grove**
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Industrialist
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President, Executive Action, Inc., a management consulting firm in the computer industry
- Charles E. Young**
Chancellor of the University of California at Los Angeles
- * Member of the Executive Committee*
† Member of the Audit Committee
• Member of the Compensation Committee

OFFICERS

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TRANSFER AGENT AND REGISTRAR

Wells Fargo Bank
San Francisco, California;
Wells Fargo Securities
Clearance Corp.
New York, New York

CERTIFIED PUBLIC ACCOUNTANTS

Arthur Young & Company
San Jose, California

CORPORATE HEADQUARTERS

3065 Bowers Avenue
Santa Clara, CA 95051

ADDITIONAL COPIES OF THIS REPORT ARE AVAILABLE AT THE FOLLOWING LOCATIONS:

- Intel Corporation
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Santa Clara, CA 95051
- Intel International
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- Intel Japan K.K.
Flower Hill-Shinmachi East Bldg.,
1-23-9 Shinmachi, Setagaya-ku
Tokyo 154, Japan

FORM 10-K

If you would like to receive, without charge a copy* of the Corporation's 'Form 10-K' which will be filed with the Securities and Exchange Commission prior to March 31, 1980 for the 1979 year, please send your request to:

Roger S. Borovoy, Secretary
Intel Corporation
3065 Bowers Ave.

Santa Clara, Ca. 95051.

*No exhibits will be sent unless specifically requested. (There will be a nominal charge for exhibits.)

ANNUAL MEETING

The Intel Annual Meeting of Shareholders will be held April 16, 1980 near the Intel facilities in the Portland, Oregon area.

