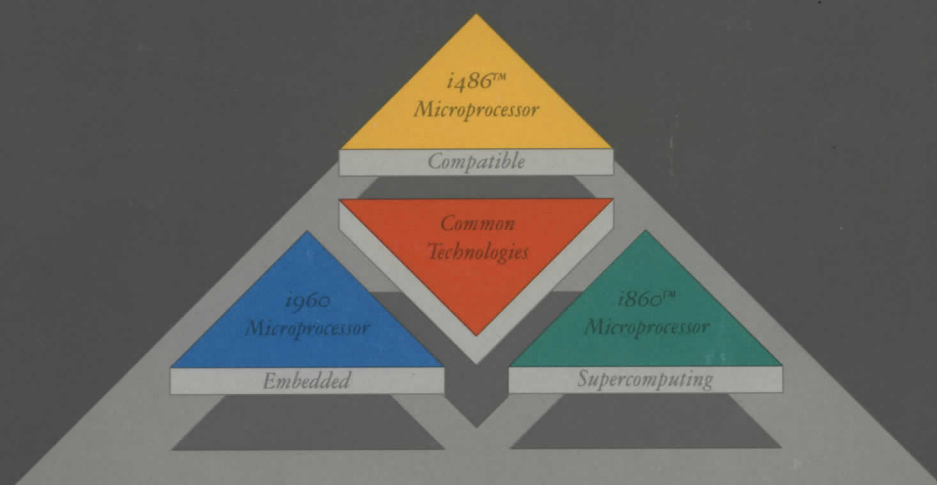


1989 Annual Report

Paving the Way to a 32-bit World



Financial Highlights

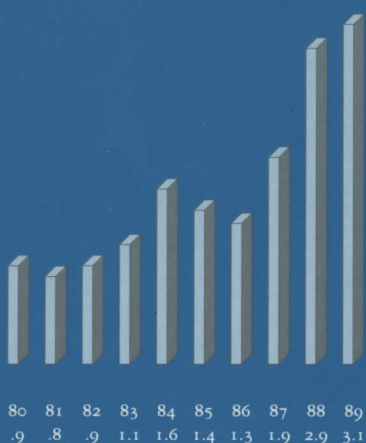
Intel Corporation

(Dollars in thousands — except per share amounts)

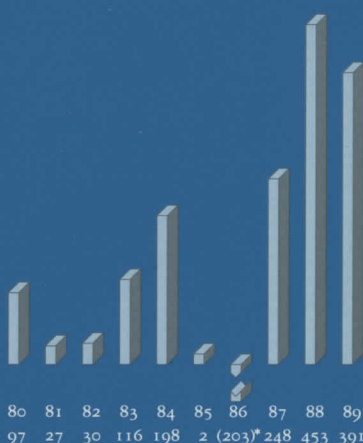
	1989	1988	1987
Net revenues	\$3,126,833	\$2,874,769	\$1,907,105
Income:			
Before taxes	\$ 583,021	\$ 629,062	\$ 287,886
Net	\$ 391,021	\$ 452,922	\$ 248,055
Net per share	\$ 2.07	\$ 2.51	\$ 1.38
Return on revenues:			
Before taxes	18.6%	21.9%	15.1%
Net	12.5%	15.8%	13.0%
Return on average equity	16.9%	27.0%	19.7%

See page 20 for a description of our industry segment reporting.

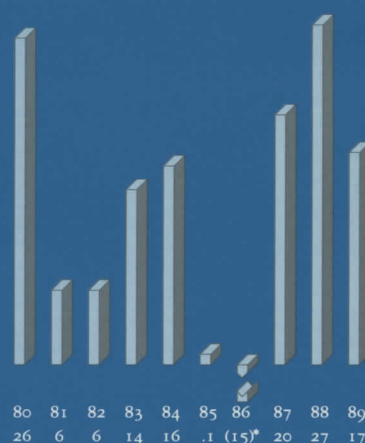
Net Revenues
(Dollars in billions)



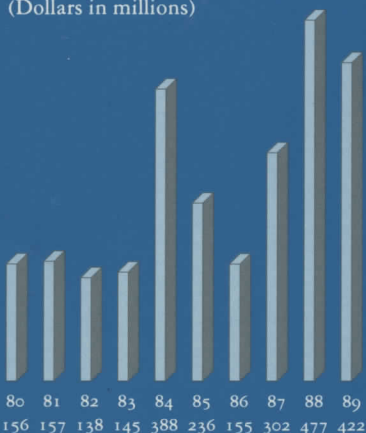
Net Income (Loss)
(Dollars in millions)



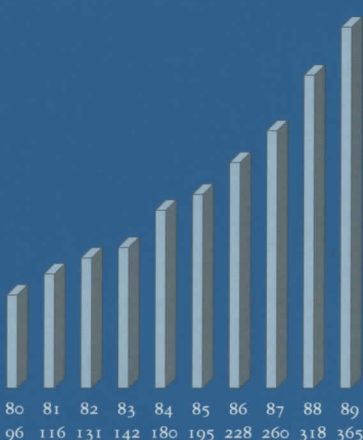
Return on Average Equity
(Percent)



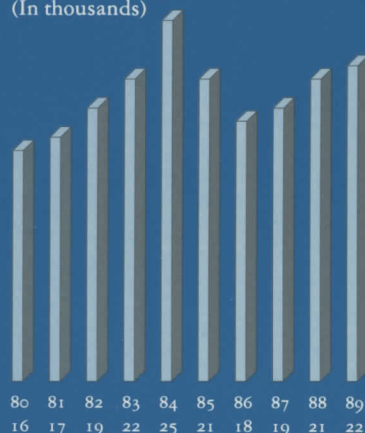
Capital Additions
To property, plant and equipment
(Dollars in millions)



Research and Development
(Dollars in millions)



Employees
At year end
(In thousands)



*Includes a \$30 million loss (\$.17 per share) for the cumulative effect of a change in accounting principle for the adoption of FAS No. 96.

On the Cover

Illustrated are Intel's three microprocessor families: the i486™/386™ microprocessor family, designed for compatibility with PC-based desktop systems; the i860™ microprocessor, for sophisticated scientific and engineering applications that require supercomputing power and three-dimensional graphics; and the i960 family of microprocessors for the embedded control of equipment and industrial processes. All are made possible by the same advanced design and manufacturing capabilities.



Andrew S. Grove

Gordon E. Moore

Solid financial performance, important new products and good progress on a program to assure continued competitiveness made 1989 highly successful.

Revenue set a new record, topping \$3 billion for the first time. Net income of \$391 million was 14% lower than the record of 1988, but still at 12.5% of revenue.

The pace of business quickened as the year progressed, led by growing demand from manufacturers of desktop computers for 386™ microprocessors and peripheral chip sets. The 386 DX registered solid growth in unit volume over the previous year, while sales of the 386 SX chip, an entry-level version, took off during this chip's first full year on the market.

Sales of microcomputer boards and systems based on our microprocessors improved significantly this year as more original equipment manufacturer (OEM) customers chose to buy at these higher levels of integration.

Business conditions in our third product group, embedded control and memory, were characterized by good unit demand but aggressive pricing in a very competitive market segment.

It was an extraordinary year for new product introductions. In February, we introduced the i860™ microprocessor, a 64-bit reduced instruction set computing (RISC) microprocessor that is the first microprocessor to integrate more than one million transistors on a single chip. Customers are using it to build supercomputers, workstations, graphic subsystems and accelerator boards, and in other applications where number-crunching ability is paramount.

In April, we announced the i486™ microprocessor, the newest member of the distinguished x86 family. It is a 32-bit processor that offers high performance and is compatible with the \$30 billion of software written for earlier versions of the x86 architecture. We began volume shipments of the i486 chip in the fourth quarter, and we expect this new product to be an important contributor to our 1990 sales.

In September, we introduced the i960 CA microprocessor, the first capable of executing two instructions in one tick of the microprocessor's clock. Breaking this barrier means the chip can execute as many as 66 million instructions per second, which makes it very well suited for high-performance "embedded" applications such as in laser printers.

Other key introductions this year included several new system platforms based on the x86 architecture, 2- and 4-megabit erasable programmable read-only memories (EPROMs), a 32-bit local area network controller and an extended industry standard architecture (EISA) chip set.

We made a number of moves this year to make sure Intel stays in fighting trim for the competitive battles we're engaged in worldwide.

- We announced plans to manufacture in Europe. A systems assembly plant is being built in Ireland; a chip fabrication plant and a chip assembly/test plant are planned on the same site near Dublin.
- We announced the planned closure of two small chip plants that are nearing the end of their productive lives. The plants, located in Livermore and Santa Clara, California, are currently planned to be closed in 1990 and 1991, respectively.

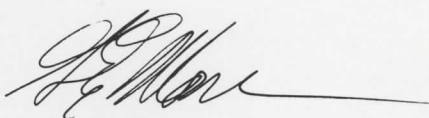
We are confident we will be able to place most of the employees into new jobs within Intel.

- We began operations in D2, a new manufacturing development facility in Santa Clara that will develop submicron processes for memories and embedded controllers.
- We dissolved BiiN, a joint venture with Siemens, after analysis indicated the investment needed to make BiiN a success was too high.

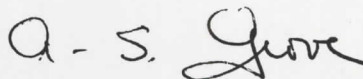
These moves are part of an ongoing process of resource redeployment. Our objective is to keep shifting human and financial resources from areas of low return to those with potential for high return.

For the second consecutive year, Intel employees earned bonuses of roughly two weeks' pay in our Employee Cash Bonus Program. Revenue per employee reached a record \$147,000 this year.

The feature section of this report talks about the shift to 32-bit computing that is currently taking place. Intel is very well positioned to benefit from this trend. It should be an exciting decade.

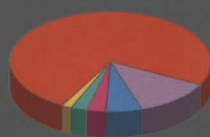


Gordon E. Moore
Chairman of the Board



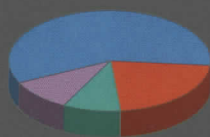
Andrew S. Grove
President and Chief Executive Officer

Percent of OEM Sales by Market Segment



73% Computer
12% Industrial
7% Communications
4% Automotive
3% Military
1% Consumer

Geographic Breakdown of Sales



57% North America
(Including Canada)
22% Europe
11% Japan
10% Asia-Pacific

History

Intel was founded in 1968 to pursue the potential of integrating large numbers of transistors into silicon chips. The Company quickly acquired a reputation as an innovator, creating the industry's first microprocessor, LSI DRAM (large-scale integrated dynamic random access memory), and EPROM (erasable programmable read-only memory). These and other significant Intel products revolutionized electronics by making possible small, inexpensive, powerful computing systems.

The Company originally flourished as a supplier of semiconductor memory for mainframe computers and minicomputers. Intel is now a leading supplier of microcomputers, which comprise the largest, fastest-growing segment of the computing market. Microcomputers based on Intel technology can be found in thousands of applications ranging from personal computers and automobiles to automated machine tools and military systems.

Major Customers

Intel sells its microcomputer components, modules and systems directly to companies that incorporate them into their products. These include manufacturers of computer systems, automobiles, and industrial and telecommunications equipment. About one-fourth of revenues come from sales to electronics distributors

who resell to tens of thousands of customers, allowing Intel to reach a much broader customer base. In addition, enhancement products for personal computers are sold through a network of more than 2000 retail computer stores. Intel also sells scientific computers and systems interconnect products directly to end users.

Major Products

Microprocessors are the central control units that direct the processing of data in microcomputer systems.

Microprocessor peripherals work with microprocessors to handle specific functions such as numerical calculations, control of disk drives and memory devices, etc.

DVI™ Technology products bring multimedia capability, including full-motion, interactive video, to PC platforms.

Microcontrollers are microcomputers programmed to perform specific functions in automobile engines, electric motors, home appliances, VCRs, etc.

EPROMs store programs for microprocessors and microcontrollers.

ASICs (application-specific integrated circuits) are semi-custom chips created by customers using Intel design tools and component "cells" as building blocks.

OEM modules and systems are based on Intel components and sold to OEMs (original equipment manufacturers) who integrate them into their products.

Systems interconnect products consist of hardware and software for mainframe-to-mainframe communications.

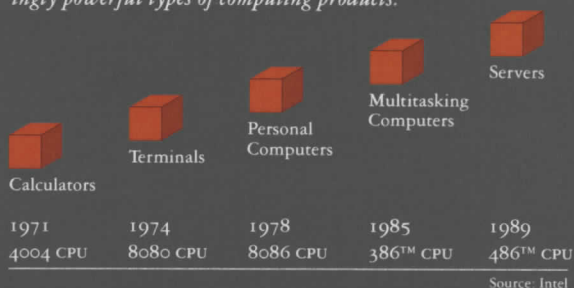
Scientific computers are large-scale parallel supercomputing systems for high-end applications.

Personal computer enhancement products are add-in boards and components sold through retail computer stores to PC users who want to upgrade their systems.

Principal Locations

Intel's principal U.S. locations are Santa Clara, Livermore and Folsom, California; Portland, Oregon; Phoenix, Arizona; Albuquerque, New Mexico; and Princeton, New Jersey. Major international sites are in Paris; Munich; Swindon, U.K.; Ireland; Tsukuba, Japan; Hong Kong; Penang, Malaysia; Singapore; the Philippines; and Puerto Rico. Intel has 90 sales offices in 25 nations and also sells through electronics distributors in 34 countries.

Intel's microprocessors have made possible new and increasingly powerful types of computing products.



The Microcomputer Grows Up

Being around the microcomputer industry is like watching a time-lapse movie where flowers germinate, sprout, grow and blossom in 60 seconds instead of 60 days. Change has been occurring at an amazing pace. Just a few years ago, we were dazzled by 4-bit microprocessors that could control simple devices like stoplights; now we take for granted 32-bit machines that control whole subway systems. Yesterday, we marvelled at Visicalc,* the first electronic spreadsheet; today, we have Mathematica,* a program that solves complex mathematical equations from calculus and linear algebra. In short, the microcomputer has grown up.

One reason this has occurred is the enormous progress that has been made in our ability to design and manufacture complex microprocessor chips. The first microprocessor, Intel's 4004, had just 2300 transistors and executed only 60,000 instructions per second. Intel's new i486™ microprocessor integrates 1.2 million transistors and operates at 15 to 20 million instructions per second.

Powerful microprocessors like Intel's 386,™ i486 and i960 CPUs all have 32-bit architectures, a characteristic that puts them in a different league from their

predecessors. (The i860™ processor has a 64-bit architecture.) The difference between 32-bit designs and yesterday's 4-, 8- and 16-bit machines is like the difference between an interstate highway and a country lane: the wider the "road," the faster you can get to where you're going. Computers handle data in "words" that are generally 4-, 8-, 16- or 32-bits wide. Thus, with a larger data word, a 32-bit machine can process a lot more data at a time.

Computing in 32 bits offers tangible advantages *now* that 16-bit systems don't have; what is more, today's 32-bit systems offer an entryway to features — both real and yet to come — that PCs will acquire during the next decade and beyond. What the 32-bit, 386 family of processors offers now, in the opinion of an increasing number of users, software developers and hardware manufacturers, is ease-of-use and power. Software developers can write more powerful software with more capabilities for the 386 processor than they can for 16-bit systems. Users get easier-to-use systems that run more than one program at a time (multitasking). In May 1989, *New York Times* columnist Peter H. Lewis wrote, "The future belongs to systems that are easier to use, powerful enough to handle several different tasks at once or able to handle specific tasks, such as desktop publishing or computer-aided design, with the most possible speed. And those are 386 systems using 386 software."

Once 32-bit personal computers became available, PC users began moving up from 16-bit systems in droves. Intel sources estimate that in 1989, unit sales of 32-bit PCs increased more than 60 percent over 1988.

Already, old favorites such as Borland's Paradox* and Autodesk's AutoCAD* have been enhanced, and now perform two to five times faster on 386 DX- and SX-based systems. Even vendors of mainframe and minicomputer software have found the 32-bit 386 architecture powerful enough to permit moving their applications to the desktop without sacrificing performance; this has broadened their programs' user base. Wolfram Research's Mathematica, IBM's* Interleaf Publisher and



"K mart's automated inventory management system is based on Intel's 32-bit microprocessors for two simple reasons: Intel's technology protects our substantial software investment, and we acquire the computing power necessary to run our systems more efficiently. In our drive to provide superior customer service, these are key ingredients."

American Airlines, Inc.

Max D. Hopper

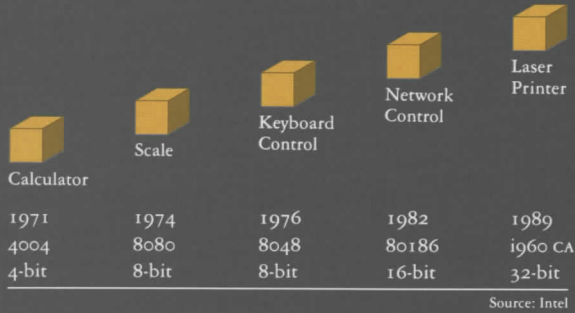
Senior Vice President

Information Systems



"As the world's largest commercial air carrier, we depend on the SABRE® network to simplify and automate our reservation systems. SABRE, linked to PCs based on the Intel 386™ microprocessor, helps us deliver fast and efficient customer service around the globe. Software compatibility and performance provide a total solution that makes the investment in Intel's 386 technology an obvious choice for American Airlines."

Intel's new i960 CA embedded processor has more than 1000 times the performance of the first microprocessor, and can be used as the computing engine for sophisticated laser printers.



MacNeal-Schwendler's engineering analysis tools are all examples. Software developers are also writing specifically for the 386 architecture. One example is Novell Inc.'s NetWare* 386. Introduced in May 1989, NetWare 386 uses such capabilities in the 386 processor as multitasking to gain two-to-threefold speed improvements over NetWare 286, to improve ease-of-use and to increase data storage capacity.

Extending the Family

The newest member of the Intel386™ architecture family, the i486™ microprocessor, is compatible with the tremendous base of x86 software. Future members of the 386 family of processors, through the 1990s, will be joined by more 32-bit components that fully support data communications and other system functions. Compatibility ensures that the desktop computing arena will be stable for years to come for both users and software developers, a situation that has never existed before. At the introduction of the i486 processor in April, Frank King, senior vice president of Lotus Development Corp.'s Software Products Group, commented, "From the industry's point of view, from Lotus's point of view, this is a significant announcement—not only for new function and new speed, but for the stability this brings to the software industry for the next decade."

By synchronizing its design, process and manufacturing technologies, Intel produced three different, fast, powerful microprocessors for three different market areas: compatibility (386/i486), supercomputing (i860) and embedded control (i960). *Separate* architectures are necessary because Intel customers have different needs: a two-seater sports car may be fast and maneuverable, but it can't transport a family of five. Just as one model cannot satisfy different driving requirements, neither can one processor architecture satisfy the diverse requirements of users in different computer markets. Software compatibility is the overriding requirement of 386 and i486 CPU-based system users; others are more concerned with sheer performance or lowest possible cost.

Supercomputing

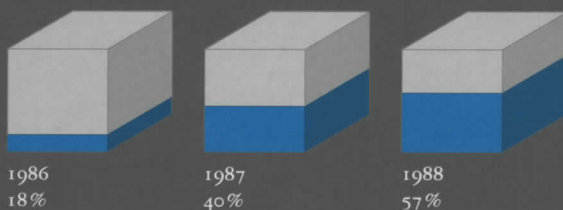
Among a certain category of users, numeric performance is the most important criterion for selecting a processor architecture. These users rely on extremely powerful desktop workstations for graphics and computer-aided design, and on supercomputers for complex physical simulations. The 64-bit i860 microprocessor, introduced in February 1989, brings computing power equivalent to a Cray-1 supercomputer to the desktop. The first microprocessor to break the one-million-transistor barrier, it is currently the highest-performance microprocessor available for computationally intensive applications. The i860 CPU includes circuitry for the high-speed math calculations required in scientific computing applications. It also has a graphics unit for creating three-dimensional images for the easier visualization of scientific data, a capability previously available only in graphics workstations costing \$100,000 and more.

Embedded Control

In the embedded market, unlike others, microprocessors are programmed to do a specific function and embedded into familiar products. Virtually every product with electronics has one. Common examples include VCRs, telephones, cars, robots and laser printers. Processors in these systems must manage events in real time,

Intel's 386™ architecture leads the 32-bit market

■ Intel ■ Other



Source: Dataquest

and they must integrate many functions to keep costs down. They are used heavily, sometimes continuously, making reliable performance critical.

Embedded applications demand a broad range of performance and price. In September, Intel introduced the 32-bit i960 CA microprocessor, the fourth member of the 32-bit 80960 family, for applications requiring very high performance. As in desktop computing, the need for higher performance is creating a shift in the embedded market from 8- and 16-bit toward 32-bit processors. In laser printers, for example, a printer controller based on the 32-bit i960 CA can print complex images more than ten times faster than controllers based on 16-bit devices. The i960 CA takes just over 22 seconds to print an elaborate image, compared to six minutes for older, less powerful controllers.

The i960 CA has changed the face of the embedded market with "superscalar" architecture. Parallel processing technology built into the CPU allows more than one instruction to execute simultaneously, making it the first to be measured in terms of the number of instructions executed per clock cycle, instead of the number of clock cycles it takes to complete one instruction. This performance leap makes new applications such as high-speed, color facsimile machines possible.

In the 1990s, Intel will bring more powerful, more functional devices to market, as hardware and software manufacturers continue to develop products that translate 32-bit computing power into smarter, friendlier systems. DVI™ Technology adds full-motion video, still images and stereo quality sounds to the PC. Multimedia products based on DVI Technology promise significant changes in the way people interact with their computers. The technology's goal is to help computers communicate more like people—in full color, in three dimensions, with real-time motion and real-time response. More than 100 DVI application development platforms have been shipped during 1989 and in 1990, major companies will begin shipping the first end-user products.

According to Intel experts, by the year 2000, as the number of transistors that engineers can place on a chip continues to increase, a microprocessor will have 50 to 100 million transistors. With a transistor budget more than 100 times as large as today's, the PC's functional possibilities are endless. The microprocessor in the year 2000 will have a die size of about one square inch, will run at 250 MHz (million "pulses" per second of the PC's internal clock), and will perform two billion instructions per second. With the Intel386™ architecture in place, 32-bit computing will bring PC users continuous innovation with continued compatibility.

*Visicalc is a trademark of Visicorp.

*Mathematica is a trademark of Wolfram Inc.

*Paradox is a registered trademark of Borland International.

*AutoCAD is a registered trademark of Autodesk Inc.

*IBM is a trademark of International Business Machines Corp.

*SABRE is a registered service mark of American Airlines, Inc.

*NetWare is a trademark of Novell Inc.

Hisashi Sakamaki

Director, Chief Executive

Business Systems Operations



“The ability to print poster-size images (like the above) from snapshots is one achievement that puts Canon’s image processing equipment at the forefront—and we need state-of-the-art components to keep us there. In 1989 we chose the i960 CA because it delivers exceptional performance for the price and comes with a full set of development tools. The i960 CA will enable us to implement very high-performance graphics systems at a low total systems cost.”

Consolidated Statements of Income

Three years ended December 30, 1989

(Thousands — except per share amounts)	1989	1988	1987
Net revenues	\$3,126,833	\$2,874,769	\$1,907,105
Cost of sales	1,720,979	1,505,925	1,043,504
Research and development	365,104	318,331	259,794
Marketing, general and administrative	483,436	456,200	357,871
Operating costs and expenses	2,569,519	2,280,456	1,661,169
Operating income	557,314	594,313	245,936
Interest expense	(96,127)	(76,206)	(62,963)
Interest income and other, net	121,834	110,955	104,913
Income before taxes	583,021	629,062	287,886
Provision for taxes	192,000	176,140	39,831
Net income	\$ 391,021	\$ 452,922	\$ 248,055
Earnings per common and common equivalent share	\$ 2.07	\$ 2.51	\$ 1.38
Weighted average common and common equivalent shares outstanding	188,778	180,437	180,358

Certain 1987 and 1988 amounts have been reclassified to conform to the 1989 presentation.

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Three years ended December 30, 1989

(Thousands)	Common Stock		Capital in excess of par value	Retained Earnings	Total
	Number of shares	Amount			
Balance at December 27, 1986	176,659	\$177	\$ 770,059	\$ 474,991	\$1,245,227
Proceeds from sales of shares through employee stock plans, tax benefit of \$545 and other	5,023	5	54,288	—	54,293
Proceeds from issuance of warrants, net	—	—	90,412	—	90,412
Repurchase and retirement of common stock	(13,350)	(13)	(177,987)	(183,562)	(361,562)
Net income	—	—	—	248,055	248,055
Balance at December 26, 1987	168,332	169	736,772	539,484	1,276,425
Proceeds from sales of shares through employee stock plans, tax benefit of \$37,512 and other	3,254	3	82,091	—	82,094
Proceeds from exercise of warrants, net	8,954	9	268,604	—	268,613
Net income	—	—	—	452,922	452,922
Balance at December 31, 1988	180,540	181	1,087,467	992,406	2,080,054
Proceeds from sales of shares through employee stock plans, tax benefit of \$14,928 and other	3,976	4	77,724	—	77,728
Net income	—	—	—	391,021	391,021
Balance at December 30, 1989	184,516	\$185	\$1,165,191	\$1,383,427	\$2,548,803

Certain 1986, 1987 and 1988 amounts have been reclassified to conform to the 1989 presentation.

See accompanying notes.

Consolidated Balance Sheets

December 30, 1989 and December 31, 1988

(Thousands)	1989	1988
Assets		
Current assets:		
Cash and cash equivalents	\$1,063,734	\$ 929,712
Short-term investments (at cost, which approximates market)	26,005	41,388
Accounts receivable, net of allowance for doubtful accounts of \$7,715 (\$7,725 in 1988)	568,709	506,477
Inventories	347,077	365,936
Prepaid taxes on income	127,822	103,493
Other current assets	29,526	22,852
Total current assets	<u>2,162,873</u>	<u>1,969,858</u>
Property, plant and equipment:		
Land and buildings	802,022	672,408
Machinery and equipment	1,337,452	1,112,385
Construction in progress	109,193	113,087
	<u>2,248,667</u>	<u>1,897,880</u>
Less accumulated depreciation	<u>964,617</u>	<u>775,421</u>
Property, plant and equipment, net	<u>1,284,050</u>	<u>1,122,459</u>
Long-term investments (at cost, which approximates market)	<u>507,669</u>	<u>421,900</u>
Other non-current assets	<u>39,391</u>	<u>35,519</u>
Total assets	<u>\$3,993,983</u>	<u>\$3,549,736</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt	\$ 156,499	\$ 200,194
Commercial paper	—	17,000
Accounts payable	165,352	152,542
Deferred income on shipments to distributors	95,951	99,805
Accrued compensation and benefits	164,859	152,488
Other accrued liabilities	172,048	155,788
Income taxes payable	166,517	156,131
Total current liabilities	<u>921,226</u>	<u>933,948</u>
Long-term debt	412,480	479,273
Deferred taxes on income	111,474	56,461
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$.001 par value, 50,000 shares authorized, none issued	—	—
Common stock, \$.001 par value, 350,000 shares authorized, 184,516 issued and outstanding in 1989 (180,540 in 1988)	185	181
Capital in excess of par value	1,165,191	1,087,467
Retained earnings	<u>1,383,427</u>	<u>992,406</u>
Total stockholders' equity	<u>2,548,803</u>	<u>2,080,054</u>
Total liabilities and stockholders' equity	<u>\$3,993,983</u>	<u>\$3,549,736</u>

Certain 1988 amounts have been reclassified to conform to the 1989 presentation.
See accompanying notes.

Consolidated Statements of Cash Flows

Three years ended December 30, 1989

(Thousands)	1989	1988	1987
Cash and cash equivalents, beginning of year	\$ 929,712	\$629,845	\$318,453
Cash flows provided by (used for) operating activities:			
Net income	391,021	452,922	248,055
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	237,160	210,934	171,359
Net loss on retirements of property, plant and equipment	23,351	16,461	10,975
Gain on sale of buildings	—	—	(18,100)
Amortization of debt discount	12,603	12,074	10,954
Change in prepaid and deferred taxes on income	30,684	(86,488)	(29,203)
Changes in assets and liabilities:			
(Increase) in accounts receivable	(62,232)	(67,455)	(140,507)
Decrease (increase) in inventories	18,859	(130,409)	(37,596)
Decrease (increase) in other assets	(10,546)	(9,224)	12,968
Increase in accounts payable	12,810	37,107	53,428
Tax benefit for employee stock plans	14,928	37,512	545
Deferral of gain on sale of building with leaseback	—	(8,461)	—
Increase in other liabilities	35,163	249,763	114,090
Total adjustments	312,780	261,814	148,913
Net cash provided by operating activities	703,801	714,736	396,968
Cash flows provided by (used for) investing activities:			
Proceeds from sale of buildings, net	—	27,263	25,421
Additions to property, plant and equipment	(422,102)	(477,460)	(301,530)
Sales and maturities of investments	69,607	53,416	260,345
Additions to investments	(159,295)	(262,657)	(177,375)
Net cash (used for) investing activities	(511,790)	(659,438)	(193,139)
Cash flows provided by (used for) financing activities:			
Additions to (repayment of) short-term debt, net	(59,855)	4,795	80,899
Increase (decrease) in commercial paper, net	(17,000)	(132,558)	149,558
Additions to long-term debt	286	87,005	105,172
Retirement of long-term debt	(44,220)	(27,868)	(10,664)
Proceeds from sales of shares through employee stock plans and other	62,800	44,582	53,748
Proceeds from exercise of warrants, net	—	268,613	—
Proceeds from issuance of warrants, net of issuance costs	—	—	90,412
Repurchase and retirement of common stock	—	—	(361,562)
Net cash provided by (used for) financing activities	(57,989)	244,569	107,563
Net increase in cash and cash equivalents	134,022	299,867	311,392
Cash and cash equivalents, end of year	\$1,063,734	\$929,712	\$629,845
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 82,300	\$ 64,000	\$ 47,700
Income taxes	\$ 136,000	\$ 94,400	\$ 44,000

See accompanying notes.

December 30, 1989, December 31, 1988 and December 26, 1987

Accounting Policies

Fiscal Year

Intel Corporation has a fiscal year which ends the last Saturday in December. Fiscal years 1989 and 1987, each 52 week years, ended on December 30 and 26, respectively. Fiscal year 1988, a 53 week year, ended on December 31, 1988. The next 53 week year will end on December 31, 1994.

Basis of Presentation

The consolidated financial statements include the accounts of Intel Corporation and all of its wholly-owned subsidiaries. (See Investment in Banking Subsidiary.) Investments in joint ventures are accounted for under the equity method. Accounts denominated in foreign currencies have been translated in accordance with Statement of Financial Accounting Standards No. 52, using the U.S. dollar as the functional currency.

Inventories

Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates actual cost on an average or first-in, first-out basis). Market is based upon estimated realizable value reduced by normal gross margin. Inventories at fiscal year-ends are as follows:

(Thousands)	1989	1988
Materials and purchased parts	\$ 84,633	\$ 99,512
Work in process	119,413	106,671
Finished goods	143,031	159,753
Total	<u>\$347,077</u>	<u>\$365,936</u>

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 price protection and right of return on merchandise unsold by the distributors. Because of frequent sales price reductions and rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

Statements of Cash Flows

In 1988 the Company adopted Statement of Financial Accounting Standards (FAS) No. 95 "Statement of Cash Flows." For purposes of the consolidated statements of cash flows, cash and cash equivalents are highly liquid investments with insignificant interest rate risk and original maturities of three months or less.

Interest

Interest related to contractual agreements to hedge certain investment positions (see Investments) is recorded as net interest income or net interest expense on a monthly basis. Interest expense capitalized as a component of construction costs was \$6.0 million, \$1.9 million and \$2.8 million for 1989, 1988 and 1987 respectively.

Accounting for Income Taxes

During fiscal year 1988 the Company adopted accounting for income taxes pursuant to Statement of Financial Accounting Standards (FAS) No. 96 effective as of the beginning of fiscal year 1986.

Earnings per Common and Common Equivalent Share

Earnings per common and common equivalent share is computed using the weighted average number of outstanding common shares and dilutive common equivalent shares outstanding. Fully diluted earnings per share has not been presented as part of the consolidated statements of income because the differences are insignificant.

Common Stock

On May 20, 1985 the Company issued \$236.5 million aggregate principal amount of zero coupon notes (see Borrowings) with detachable warrants. The warrants entitle the holders to purchase 8.9 million shares of Common Stock reserved for issuance at an exercise price of \$26.67 per share through May 15, 1995. These warrants are subject to acceleration by the Company upon the occurrence of certain events. \$27.1 million, representing the proceeds of the offering, net of expenses, is included in capital in excess of par value.

On April 1, 1987 the Company issued warrants that entitle the holders to purchase 5.3 million shares of Common Stock reserved for issuance at an exercise

price of \$30 per share through March 15, 1992. These warrants are subject to acceleration by the Company upon the occurrence of certain events. \$33.2 million, representing the proceeds of the offering, net of expenses, is included in capital in excess of par value. Concurrent with the warrant offering, the Company issued \$110 million aggregate principal amount of 8¹/₈% notes due March 15, 1997. (See Borrowings.)

At December 30, 1989 substantially all of the 1995 and 1992 Warrants were outstanding.

On June 17, 1987 the Company repurchased and retired 13.4 million shares of Common Stock from International Business Machines Corporation (IBM) for \$361.6 million in cash. This transaction resulted in a \$178 million reduction in capital in excess of par value and a \$183.6 million reduction in retained earnings.

On August 14, 1987 the Company issued warrants that entitled the holders to purchase 9 million shares of Common Stock reserved for issuance at an exercise price of \$30 per share through August 15, 1988. \$57.2 million, representing the proceeds of the offering, net of expenses, is included in capital in excess of par value. In August 1988 substantially all of the warrants were exercised which resulted in the Company issuing 8.95 million shares of Common Stock and receiving net proceeds of \$268.6 million which is included in capital in excess of par value.

On April 18, 1989 the stockholders of Intel approved a reincorporation proposal by which Intel's state of incorporation was changed from California to Delaware effective May 3, 1989. As a result of this reincorporation, the authorized capital was increased to 350 million shares of Common Stock, \$.001 par value and 50 million shares of Preferred Stock, \$.001 par value. All of the previously outstanding no par value shares of Capital Stock were converted into the same number of \$.001 par value shares of Common Stock. The change in the Company's capitalization has been reflected on a retroactive basis in the accompanying consolidated financial statements.

In April 1989 the Board of Directors of Intel Corporation authorized the issuance of one Common Stock Purchase Right (a "Right") for each share of Common Stock. The Rights trade automatically with shares of Intel's Common Stock and may not be exercised or traded separately until certain events occur, including the announcement of an offer to acquire at least 20% of Intel's outstanding Common Stock. After becoming exercisable, each Right entitles its holder to purchase one share of Common Stock of Intel at \$120

per share. In addition, after any person (an "Acquiring Person") acquires 20% or more of Intel's outstanding Common Stock in a transaction which the Board of Directors has not determined to be in the best interests of Intel and its stockholders, each Right (other than those held by the Acquiring Person) entitles its holder to purchase for the exercise price that number of shares of Common Stock having a market value of two times the exercise price. Also, if after a person has become an Acquiring Person, Intel is a party to a merger or other business combination, each Right (other than Rights held by the Acquiring Person) entitles its holder to purchase for the exercise price that number of shares of common stock of the surviving corporation worth two times the exercise price.

At any time before the tenth day after a person becomes an Acquiring Person, Intel may redeem the Rights, in whole but not in part, at a redemption price of \$.01 per Right. In addition, at any time after a person becomes an Acquiring Person and prior to such Acquiring Person owning 50% or more of the outstanding Common Stock, Intel may exchange the Rights (other than Rights held by the Acquiring Person) in whole or in part, at an exchange ratio of one Common Share per Right. The Rights will expire, if not earlier redeemed or exchanged, on May 1, 1999. The exercise price, redemption price and exchange ratio are subject to adjustment under certain circumstances.

Borrowings

Short-term Debt

Short-term debt at December 30, 1989 consists of \$5.6 million of notes payable, \$121 million borrowed under foreign and domestic lines of credit, \$16.2 million of current portion of long-term debt and \$13.7 million borrowed under other arrangements. At December 30, 1989 the Company and its subsidiaries had established foreign and domestic lines of credit of approximately \$1.0 billion. These lines are generally renegotiated on an annual basis. The Company complies with compensating balance requirements related to certain of these lines of credit; however, such requirements are immaterial and do not legally restrict the use of cash. The weighted average interest rate on notes payable and borrowings under lines of credit outstanding at December 30, 1989 approximated 8%.

Commercial Paper

In 1986 the Company began borrowing under commercial paper programs under which the aggregate outstanding balance reached \$654 million in 1989 and

\$481 million in 1988. This debt is rated A1 by Standard and Poor's and P1 by Moody's Investor Service. The proceeds are used to fund short-term working capital needs of the Company. At December 30, 1989 there were no commercial paper obligations outstanding (\$17 million at December 31, 1988).

Long-term Debt

Long-term debt at fiscal year-ends is as follows:

(Thousands)	1989	1988
Payable in U.S. dollars:		
1983 Series A Industrial, Medical and Environmental Pollution Control Revenue Bonds	\$ 78,980	\$ 78,703
1983 Series B Industrial, Medical and Environmental Pollution Control Revenue Bonds	29,902	29,877
Zero Coupon Notes, net of unamortized discount of \$99,189 (\$111,792 in 1988)	117,156	104,553
8 ¹ / ₈ % Notes	102,176	104,630
Other U.S. dollar debt	14,500	14,500
Payable in other currencies:		
Yen Guaranteed Bonds	16,080	18,645
Yen Promissory Notes	—	21,368
Yen Japanese Government Bonds	—	25,554
Yen Guaranteed Step-up Coupon Notes	69,420	81,253
Other foreign currency debt	426	270
(Less current portion of long-term debt)	(16,160)	(80)
Total long-term debt	<u>\$412,480</u>	<u>\$479,273</u>

Proceeds of \$80 million from the Adjustable Rate Industrial Revenue Bonds issued in September, 1983 (the 1983 Series A Bonds) and \$30 million issued in December, 1983 (the 1983 Series B Bonds) by the Puerto Rico Industrial, Medical and Environmental Pollution Control Facilities Financing Authority (the Authority) have been loaned to the Company. In accordance with loan agreements between the Company and the Authority, the Company has guaranteed repayment of principal and interest on these Bonds, which are subject to redemption prior to maturity upon the occurrence of certain events. The 1983 Series A Bonds are due September 1, 2013, and are adjustable and redeemable (at the option of either the Company or the bondholder) every five years from September 1988 through September 2008 in accordance with certain formulas. The 1983 Series B Bonds are due December 1, 2013, and are adjustable and redeemable (at the option of either the Company or the bondholder) every five years from December 1988 through December 2008 in accordance with certain formulas.

The Series A Bonds, which were repriced and a portion of such Bonds remarketed at a discount on September 1, 1988, have an effective yield of 6.9% through August 1993, and are next adjustable and redeemable on September 1, 1993. The Series B Bonds, which were

repriced and remarketed at a discount on December 1, 1988, have an effective yield of 6.8% through November 1993 and are next adjustable and redeemable on December 1, 1993.

In connection with these agreements, the Company is obligated to spend a total of \$110 million to finance expansion in Puerto Rico. As of December 30, 1989, the Company had spent \$92 million. The remainder of the Company's commitment is restricted, invested in short-term and long-term interest-bearing instruments and included in long-term investments. (See Investments.)

On May 20, 1985 the Company issued \$236.5 million aggregate principal amount of zero coupon notes with detachable warrants. (See Common Stock.) The notes are due May 15, 1995 and have an effective yield to maturity of 11.75%, compounded semiannually, with interest payable at maturity. In 1988 \$20.2 million principal amount of the notes were repurchased by the Company on the open market. As of December 30, 1989, \$117.2 million of notes were outstanding, net of unamortized discount.

On April 1, 1987 the Company completed a public offering of \$110 million aggregate principal amount of 8¹/₈% notes and an offering of warrants to purchase 5.3 million shares of Common Stock. (See Common Stock.) The notes are due March 15, 1997 and are redeemable on or after March 15, 1994 at the option of the Company. In 1989 \$2.5 million principal amount of the notes were repurchased by the Company.

On January 29, 1985 the Company issued Yen 12.5 billion 6⁵/₈% Yen Guaranteed Bonds due January 29, 1992. As of December 30, 1989 Yen 2.3 billion (approximate U.S. dollar equivalent of \$16.1 million) were outstanding. On December 28, 1989 the Company issued notice to call the outstanding bonds on January 29, 1990. Accordingly, these bonds have been classified with the current portion of long-term debt and included with short-term debt. The effective dollar interest rate at December 30, 1989 was 8.6%.

The Yen 2.7 billion borrowed on July 27, 1986, under promissory note agreements maturing February 10, 1992, was repaid on July 31, 1989. The approximate U.S. dollar equivalent of the repayment was \$19.5 million.

On July 21, 1986 the Company borrowed Yen 3 billion 7.7% Japanese Government Bonds maturing February 20, 1992 under a securities borrowing arrangement. On

December 19, 1989, the Company satisfied the obligation and extinguished the borrowing arrangement.

On June 10, 1988 the Company issued Yen 10 billion Guaranteed Step-up Coupon Notes (approximate U.S. dollar equivalent of \$69.4 million at December 30, 1989) due June 10, 1993. The notes are redeemable on June 10, 1991 at the option of either the Company or the holder. The notes have an effective Yen interest rate of 4.8% until maturity or redemption. Proceeds from the notes have been invested in long-term Yen denominated interest-bearing investments.

In 1988 the Company filed a Registration Statement with the Securities and Exchange Commission relating to a proposed public offering of up to \$150 million of debt securities and up to 2 million foreign currency exchange warrants. The securities may be sold by the Company from time to time. At December 30, 1989 no debt or warrants had been issued.

As of December 30, 1989, aggregate debt maturities are as follows: 1990-\$16.2 million; 1991-\$79.7 million; 1992-\$0 million; 1993-\$108.9 million; 1994-\$0 million; and thereafter-\$323 million.

Investments

Investments consist of time deposits, certificates of deposit, Euro-time deposits, U.S. and foreign government obligations, U.S. Government Agencies' obligations, corporate bonds, fixed and floating rate notes, loan participations, municipal obligations, collateralized mortgage obligations and investments made under repurchase agreements. Investments denominated in foreign currencies are hedged by currency forward contracts and by currency interest rate swaps. Investments with maturities of greater than one fiscal year and restricted investments are classified as long-term. Investments are carried at cost which approximates market.

Investments consist primarily of AA or better quality bonds and investments with AA or better rated counterparties for long-term transactions and A1 or P1 or better rated counterparties for short-term transactions. Foreign government regulations imposed upon investment alternatives of foreign subsidiaries or the absence of AA rated financial institutions in some countries result in some exceptions. Collateral has been obtained and secured from counterparties against investments whenever deemed necessary. At December 30, 1989 investments were placed with over 40 different financial institutions, and no individual security or financial institution exceeded 10% of total investments.

The Company enters into currency forward contracts, currency options, interest rate swaps, and currency interest rate swaps to hedge its currency and interest rate exposures. At December 30, 1989, the outstanding net face amounts of these contracts totaled approximately \$652 million of currency forward contracts (including \$508 million which hedge foreign currency investments), \$12 million of currency options, and \$255 million of interest rate swaps.

Investment in Banking Subsidiary

In 1988 the Company adopted Statement of Financial Accounting Standards (FAS) No. 94 "Consolidation of All Majority-Owned Subsidiaries." The effect of the standard was to consolidate the Company's wholly-owned offshore banking subsidiary which was previously accounted for by the equity method and to restate all prior period financial statements. Assets of this subsidiary of \$21 million as of December 30, 1989 (\$59 million as of December 31, 1988) consist primarily of short-term loans to third-party financial institutions. Earnings of the subsidiary in 1989 were \$2.1 million (\$4.6 million in 1988 and \$3.8 million in 1987).

Interest Income and Other

(Thousands)	1989	1988	1987
Interest income	\$153,870	\$102,206	\$ 65,204
Foreign currency gains	5,211	4,847	4,987
Other income (loss)	(2,247)	3,902	16,622
Gains on sale of buildings	—	—	18,100
Charge for exit from joint venture	(35,000)	—	—
Total	<u>\$121,834</u>	<u>\$110,955</u>	<u>\$104,913</u>

Other income (loss) for 1989 and 1988 includes the Company's share of losses from joint ventures, income from export incentives, income from the sale of foreign tax credits and income from other investments. Other income for 1987 includes income, net from equity investments hedged with market index futures contracts, income from hedged precious metal investments, a gain from the liquidation of a hedging investment and income from other investments. In the quarter ended September 30, 1989 the Company recorded a \$35 million charge to cover all expected costs associated with the exit from the joint venture BiiN.

Provision for Taxes

Income before taxes, and the provision for taxes consist of the following:

(Thousands)	1989	1988	1987
Income before taxes:			
U.S.	\$205,235	\$307,454	\$142,012
Foreign	377,786	321,608	145,874
Total income before taxes	<u>\$583,021</u>	<u>\$629,062</u>	<u>\$287,886</u>
Provision for taxes:			
Federal:			
Current	\$ 94,472	\$178,692	\$ 42,873
Deferred (prepaid)	25,995	(73,296)	(30,164)
	<u>120,467</u>	<u>105,396</u>	<u>12,709</u>
State:			
Current	24,330	30,389	6,051
Deferred	—	—	2,000
	<u>24,330</u>	<u>30,389</u>	<u>8,051</u>
Foreign:			
Current	42,514	53,547	20,110
Deferred (prepaid)	4,689	(13,192)	(1,039)
	<u>47,203</u>	<u>40,355</u>	<u>19,071</u>
Total provision for taxes	<u>\$192,000</u>	<u>\$176,140</u>	<u>\$ 39,831</u>
Effective tax rate	33%	28%	14%

The provision for taxes reconciles to the amount computed by applying the statutory Federal rate of 34% in 1989 and 1988 and 40% in 1987 to income before taxes as follows:

(Thousands)	1989	1988	1987
Computed expected tax	\$198,227	\$213,881	\$115,154
Unrealized future tax deductions (benefit of loss carryforwards and deferred tax charges)	—	(22,000)	(57,340)
State taxes, net of Federal benefits	16,058	20,057	4,831
Amortization of investment tax credits	—	(2,000)	(1,825)
Research and experimental credit	(8,600)	(18,100)	(4,100)
Provision for combined foreign and U.S. taxes on certain foreign income at rates less than U.S. rate	(12,148)	(18,496)	(17,235)
Other	(1,537)	2,798	346
Provision for taxes	<u>\$192,000</u>	<u>\$176,140</u>	<u>\$ 39,831</u>

In 1987, the Company paid additional tax for potential adjustments relating to the examination of the Company's U.S. income tax returns for the years 1978 through 1982 which resulted in a decrease in deferred taxes and a corresponding increase in current taxes payable.

Deferred (prepaid) income taxes result from differences in the timing of certain revenue and expense items for

tax and financial reporting purposes. The sources and tax effects of these differences are as follows:

(Thousands)	1989	1988	1987
Inventory valuation and other reserves	\$ 9,304	\$(12,874)	\$ —
Benefit for deferred tax charges previously expensed	—	(22,000)	—
Unremitted earnings of certain subsidiaries	4,598	(44,778)	(26,373)
Deferred investment tax credits	—	(2,000)	(5,946)
Depreciation	11,870	10,530	—
State and local tax accruals	—	—	2,000
Other, net	4,912	(15,366)	1,116
Deferred (prepaid) income taxes	<u>\$30,684</u>	<u>\$(86,488)</u>	<u>\$(29,203)</u>

The Company's U.S. income tax returns for the years 1978 through 1987 are presently under examination by the Internal Revenue Service. In June 1989, the Company received a notice of proposed deficiencies from the Internal Revenue Service totaling approximately \$36 million, exclusive of penalties and interest, for the years 1978 through 1982. These proposed deficiencies relate primarily to subsidiary operations in Puerto Rico. In September 1989, the Company filed a petition in the U.S. Tax Court contesting these proposed deficiencies. No decision has been rendered. Management believes that adequate amounts of tax have been provided for adjustments which may result from these proposed deficiencies and any additional adjustments for the remaining years under examination.

Employee Benefit Plans

Stock Option Plans

The Company has stock option plans (hereafter referred to as the EOP Plans) under which officers and key employees may be granted options to purchase shares of the Company's authorized but unissued Common Stock. On April 18, 1989, the stockholders approved the Executive Long Term Stock Option Plan (ELTSOP) under which certain key executive officers may be granted options to purchase shares of the Company's authorized but unissued Common Stock. Under both the EOP and ELTSOP plans, the option purchase price is not less than the fair market value at date of grant.

Options currently expire no later than ten years from date of grant. No material charges have been made to income in accounting for options. Proceeds realized by the Company as a result of transactions in these plans are credited to capital in excess of par value. Income tax

benefits are credited to capital in excess of par value only in those years in which the Company can realize the benefits and, therefore, 1987 and 1986 tax benefits of \$17.9 million and \$4.3 million, respectively, have been credited to capital in excess of par value in 1988.

In January 1990, an additional 20 million shares were reserved by the Board of Directors for issuance under an EOP Plan, subject to stockholder approval. Additional information with respect to EOP Plans is as follows:

(Thousands)	Shares Available for Options	Outstanding Options	
		Number of Shares	Aggregate Price
December 27, 1986	17,257	19,129	\$221,330
Options granted	(4,361)	4,361	114,045
Options exercised	—	(3,539)	(35,017)
Options cancelled	1,340	(1,340)	(19,235)
Options cancelled under expired plans	(1)	—	—
December 26, 1987	14,235	18,611	281,123
Options granted	(4,056)	4,056	122,057
Options exercised	—	(2,206)	(23,167)
Options cancelled	1,091	(1,091)	(20,340)
December 31, 1988	11,270	19,370	359,673
Options granted	(3,861)	3,861	108,622
Options exercised	—	(2,574)	(31,888)
Options cancelled	1,085	(1,085)	(23,457)
Options lapsed under expired plans	(3,512)	—	—
Options cancelled under expired plans	(158)	—	—
December 30, 1989	4,824	19,572	\$412,950
Options exercisable at:			
December 26, 1987		5,178	\$ 53,956
December 31, 1988		5,567	\$ 68,833
December 30, 1989		5,748	\$ 82,702

The average exercise price for options outstanding at December 30, 1989 was \$21.10 while the range of individual exercise prices was \$7.04 to \$37.25. Individual options outstanding at that date will expire if not exercised at specific dates ranging from January 1990 to December 1999. The range of exercise prices for options exercised during the three year period ended December 30, 1989 was \$3.33 to \$32.67.

Additional information with respect to the ELTSOP Plan is as follows:

Under the ELTSOP Plan, 5.0 million shares were reserved for issuance in 1989 and as of December 30, 1989, 2.0 million shares with an aggregate option price of \$58.7 million were granted and outstanding under this plan. No shares were granted in previous years and

no shares expired or were cancelled during 1989. The average exercise price for options outstanding at December 30, 1989 was \$29.37 while the range of individual exercise prices was \$29.25 to \$29.38. Individual options outstanding at that date will expire if not exercised at specific dates ranging from April 1999 to August 1999.

Stock Participation Plan

Under this plan, qualified employees are entitled to purchase shares of the Company's Common Stock at 85% of the fair market value at certain specified dates. Of the 19.5 million shares authorized to be issued under this plan, as amended, 3.8 million shares are available for issuance at December 30, 1989. Employees purchased 1.4 million shares in 1989 (1.2 million and 1.5 million in 1988 and 1987, respectively) for \$32.1 million (\$26.5 million and \$20.6 million in 1988 and 1987, respectively).

Retirement Plans

Effective July 1, 1979 and January 1, 1988, the Company adopted profit sharing retirement plans for the benefit of qualified employees in the U.S. and Puerto Rico, respectively. The plans are designed to provide employees with an accumulation of funds at retirement and provide for annual discretionary contributions to trust funds. \$54.0 million was accrued under these profit sharing retirement plans in 1989 (\$69.1 million in 1988 and \$24.8 million in 1987).

Effective January 1, 1987, contributions made by the Company generally vest ratably over a three- to seven-year period based on length of service (certain portions will vest immediately).

Effective January 1, 1988, the Company adopted defined benefit pension plans for the benefit of qualified employees in the U.S. and Puerto Rico. The plans provide for minimum pension benefits which are determined by a participant's years of service credited under the plans, final average compensation (taking into account the participant's social security wage base) and the value of the Company's contributions, plus earnings, in the profit sharing retirement plan. If the balance in the profit sharing retirement plan exceeds the pension guarantee, the participant will receive benefits from the profit sharing retirement plan only. The Company's funding policy is consistent with the funding requirements of Federal laws and regulations.

The Company adopted Statement of Financial Accounting Standards (FAS) No. 87 "Employers' Accounting for Pensions" for its U.S. and Puerto Rico defined benefit plans in 1988.

Pension expense for 1989 and 1988 for the U.S. and Puerto Rico plans included the following components:

(Thousands)	1989	1988
Service cost — benefits earned during the year	\$1,134	\$1,122
Interest cost of projected benefit obligation	715	646
Actual investment return on plan assets	(239)	(2)
Net amortization and deferral	525	435
Net pension expense	<u>\$2,135</u>	<u>\$2,201</u>

The funded status of the plans as of December 30, 1989 and December 31, 1988 is as follows:

(Thousands)	1989	1988
Vested benefit obligation	\$ (853)	\$ (568)
Accumulated benefit obligation	\$ (1,126)	\$ (568)
Projected benefit obligation	<u>\$(10,254)</u>	<u>\$(9,599)</u>
Fair market value of plan assets	3,212	1,034
Excess of projected benefit obligation over plan assets	(7,042)	(8,565)
Unrecognized net (gain)	(1,953)	—
Unrecognized prior service cost	7,547	7,390
Accrued pension costs	<u>\$ (1,448)</u>	<u>\$(1,175)</u>

The assumptions used to measure net periodic pension costs for these defined benefit plans were as follows:

	1989	1988
Discount rate	8.5%	8.5%
Expected long-term return on assets	8.5%	8.5%
Average increase in compensation levels	<u>5.5%</u>	<u>5.5%</u>

Plan assets of the U.S. and Puerto Rico plans consist primarily of listed stocks and bonds.

Effective January 1, 1989, the Company adopted FAS No. 87, for its foreign defined benefit plans. The Company's funding policy is consistent with the local requirements in each country. Pension expense for 1989 for the foreign plans included the following:

(Thousands)	1989
Service cost — benefits earned during the year	\$ 3,946
Interest cost of projected benefit obligation	2,342
Actual investment return on plan assets	(2,198)
Net amortization and deferral	48
Net pension expense	<u>\$ 4,138</u>

The funded status of the foreign defined benefit plans as of December 30, 1989 is as follows:

(Thousands)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Vested benefit obligation	<u>\$(11,459)</u>	<u>\$ (280)</u>
Accumulated benefit obligation	<u>\$(12,203)</u>	<u>\$(2,560)</u>
Projected benefit obligation	<u>\$(18,742)</u>	<u>\$(5,209)</u>
Fair market value of plan assets	17,948	1,155
Excess of projected benefit obligation over plan assets	(794)	(4,054)
Unrecognized net (gain) loss	7	(66)
Unrecognized net transition asset	(12)	867
Accrued pension costs	<u>\$ (799)</u>	<u>\$(3,253)</u>

Assumptions used in 1989 to measure the foreign net periodic pension costs were as follows:

	1989
Discount rate	5.5% - 24%
Expected long-term return on assets	5.5% - 24%
Average increase in compensation levels	4.5% - 18%

Plan assets of the foreign plans consist primarily of listed stocks, bonds, and cash surrender value life insurance policies.

Commitments

The Company leases a portion of its capital equipment and certain of its facilities under leases which expire at various dates through 2009. Rental expense was \$47.1 million in 1989, \$40.1 million in 1988 and \$36 million in 1987. Minimum rental commitments under all non-cancelable leases with an initial term in excess of one year are payable as follows: 1990—\$36.2 million; 1991—\$25.9 million; 1992—\$13.9 million; 1993—\$3.5 million; 1994—\$1.7 million; 1995 and beyond—\$1.6 million. Commitments for construction or purchase of property, plant and equipment approximated \$191 million at December 30, 1989.

Financial inducements have been provided to the Company to construct and equip certain manufacturing facilities within a foreign country. In connection with these inducements, the Company has agreed to continue operating its facilities within that country.

Contingencies

In 1987 the Company was served with a demand for arbitration by Advanced Micro Devices Incorporated (AMD) under which AMD alleged that the Company had

breached specific provisions of a technology exchange agreement between the parties and had committed other such acts allegedly injurious to AMD. AMD's demand seeks monetary damages of \$1 billion as direct and consequential damages or, alternatively, \$100 million as direct damages, and other specific relief the arbitrator may deem appropriate. In addition, AMD has asked the arbitrator to order transfer of certain product technology to AMD. The Company has also made certain counter-claims against AMD. In 1987, 1988 and 1989, testimony has been taken on various claims.

The Company believes that AMD's claims are without merit and is vigorously contesting those claims. Although the arbitration is still in progress, the arbitrator did issue an initial written decision on one product claim in 1989. The ultimate outcome of these matters cannot be determined at this time. Management, including internal counsel, does not believe that the outcome will have a material adverse effect on the Company's financial position or overall trends in results of operations.

The Company is a defendant in a lawsuit filed by Hughes Aircraft Corporation (Hughes) in a U.S. Federal Court in 1983. The suit alleges that the Company willfully infringed and continued to infringe three patents relating to ion implantation. The first patent on which Hughes alleges infringement expired in October 1986, the second patent expired in April 1987 and the third patent expired in October 1988. Hughes' complaint seeks unspecified monetary damages and an injunction against further alleged infringement. Upon expiration of the third patent in October 1988, the possibility of an injunction has been eliminated. A trial date of May 21, 1990 has been set.

The Company believes it has several meritorious defenses to the lawsuit and is contesting the lawsuit vigorously. The ultimate outcome of this matter cannot be determined at this time. Management, including internal counsel, does not believe that the outcome will have a material adverse effect on the Company's financial position or overall trends in results of operations.

The Company has been named to the California and Federal Superfund lists for three of its sites and has completed, along with two other companies, a Remedial Investigation/Feasibility Study with the Federal Environmental Protection Agency (EPA) to evaluate the ground water in a certain area related to one of its sites. The EPA has issued a Record of Decision with respect to a groundwater cleanup plan at that site. The Company has reached an agreement in principle with those

same two companies which significantly limits the Company's liabilities under the proposed clean up plan. In addition, the Company has completed extensive cleanup and studies of its sites. In the opinion of management, the potential liability, if any, to the Company arising out of these matters will not have a material adverse effect on the Company's financial position or overall trends in results of operations.

The Company is party to various other legal proceedings. In the opinion of management, these proceedings will not have a material adverse effect on the financial position or overall trends in results of operations of the Company.

Industry Segment Reporting

Intel and its subsidiaries operate in one dominant industry segment. The Company is engaged principally in the design, development, manufacture, and sale of microcomputer components and related products at various levels of integration. In 1989, 1988 and 1987, approximately 10.5%, 12.0% and 14.5%, respectively, of Intel's revenues were derived from sales to one significant customer. Major operations outside the United States include manufacturing facilities in Israel, Malaysia, the Philippines, and Singapore, and sales subsidiaries in Japan and throughout Europe and other parts of the world. Summary balance sheet information for operations outside of the United States at fiscal year-ends is as follows:

(Thousands)	1989	1988
Total assets	\$1,166,878	\$1,078,432
Total liabilities	\$ 332,730	\$ 482,760
Net property, plant and equipment	<u>\$ 221,031</u>	<u>\$ 214,406</u>

Geographic information for the three years ended December 30, 1989 is presented in the tables that follow. 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 are eliminated in the consolidated financial statements. Operating income by geographic segment does not include an allocation of general corporate expenses. Identifiable assets are those assets that can be directly associated with a particular geographic area. Corporate assets include principally cash and cash equivalents, short-term investments, prepaid taxes on income, and other current assets.

(Thousands)	U.S.	Europe	Japan	Asia Pacific & Other	Eliminations	Corporate	Consolidated
1989							
Sales to unaffiliated customers	\$1,774,585	\$690,703	\$340,820	\$320,725	\$ —	\$ —	\$3,126,833
Transfers between geographic areas	997,935	6,908	16,338	400,339	(1,421,520)	—	—
Net revenues	\$2,772,520	\$697,611	\$357,158	\$721,064	\$(1,421,520)	\$ —	\$3,126,833
Operating income (loss)	\$ 414,272	\$104,954	\$ 33,014	\$179,542	\$ 25,293	\$ (199,761)	\$ 557,314
Identifiable assets	\$2,162,820	\$266,153	\$199,170	\$701,555	\$ (420,589)	\$ 1,084,874	\$3,993,983
1988							
Sales to unaffiliated customers	\$1,640,216	\$678,514	\$325,864	\$230,175	\$ —	\$ —	\$2,874,769
Transfers between geographic areas	925,564	15,023	7,173	366,792	(1,314,552)	—	—
Net revenues	\$2,565,780	\$693,537	\$333,037	\$596,967	\$(1,314,552)	\$ —	\$2,874,769
Operating income (loss)	\$ 499,885	\$107,413	\$ 39,433	\$143,593	\$ (11,109)	\$ (184,902)	\$ 594,313
Identifiable assets	\$1,753,974	\$277,059	\$227,471	\$573,902	\$ (190,063)	\$ 907,393	\$3,549,736
1987							
Sales to unaffiliated customers	\$1,166,943	\$447,856	\$170,463	\$121,843	\$ —	\$ —	\$1,907,105
Transfers between geographic areas	537,657	6,532	9,164	186,950	(740,303)	—	—
Net revenues	\$1,704,600	\$454,388	\$179,627	\$308,793	\$ (740,303)	\$ —	\$1,907,105
Operating income (loss)	\$ 269,683	\$ 26,689	\$ 17,269	\$ 62,915	\$ (19,253)	\$ (111,367)	\$ 245,936
Identifiable assets	\$1,502,651	\$224,507	\$126,458	\$322,052	\$ (136,068)	\$ 459,184	\$2,498,784

Supplemental Information (unaudited)

Quarterly information for each of the two years in the period ended December 30, 1989 is presented on page 24.

Report of Ernst & Young, Independent Auditors

The Board of Directors and Stockholders
Intel Corporation

We have audited the accompanying consolidated balance sheets of Intel Corporation at December 30, 1989 and December 31, 1988, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 30, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts

and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intel Corporation at December 30, 1989 and December 31, 1988, and the consolidated results of operations and cash flows for each of the three years in the period ended December 30, 1989 in conformity with generally accepted accounting principles.

Ernst & Young

San Jose, California
January 15, 1990

Financial Summary

Ten years ended December 30, 1989

(Thousands)	Net Investment in Plant & Equip.	Total Assets	Long-Term Debt	Stockholders' Equity	Proceeds from Employee Stock Plans & Tax Benefits	Additions to Property Plant & Equipment
1989	\$1,284,050	\$3,993,983	\$412,480	\$2,548,803	\$77,728	\$422,102
1988	\$1,122,459	\$3,549,736	\$479,273	\$2,080,054	\$82,094	\$477,460
1987	\$ 891,196	\$2,498,784	\$298,062	\$1,276,425	\$54,293	\$301,530
1986	\$ 779,321	\$1,977,352	\$286,600	\$1,245,227	\$26,911	\$154,827
1985	\$ 848,246	\$2,152,774	\$270,831	\$1,421,481	\$32,612	\$236,216
1984	\$ 778,282	\$2,029,399	\$146,306	\$1,360,163	\$37,236	\$388,445
1983	\$ 503,592	\$1,679,650	\$127,586	\$1,121,740	\$56,780	\$144,974
1982	\$ 461,625	\$1,056,452	\$197,143	\$ 551,853	\$33,990	\$138,085
1981	\$ 411,747	\$ 871,517	\$150,000	\$ 487,817	\$27,598	\$157,426
1980	\$ 320,559	\$ 767,168	\$150,000	\$ 432,860	\$32,930	\$156,006

(Thousands — except per share amounts)	Net Revenues	Cost of Sales	Research & Development	Operating Income (Loss)	Net Income (Loss)	
					Total	Per Share
1989	\$3,126,833	\$1,720,979	\$365,104	\$ 557,314	\$ 391,021	\$ 2.07
1988	\$2,874,769	\$1,505,925	\$318,331	\$ 594,313	\$ 452,922	\$ 2.51
1987	\$1,907,105	\$1,043,504	\$259,794	\$ 245,936	\$ 248,055	\$ 1.38
1986	\$1,265,011	\$ 860,680	\$228,250	\$ (195,259)	*\$ (203,165)	*\$ (1.16)
1985	\$1,364,982	\$ 943,435	\$195,171	\$ (60,169)	\$ 1,570	\$.01
1984	\$1,629,332	\$ 882,738	\$180,168	\$ 250,450	\$ 198,189	\$ 1.13
1983	\$1,121,943	\$ 624,296	\$142,295	\$ 138,717	\$ 116,111	\$.70
1982	\$ 899,812	\$ 541,928	\$130,801	\$ 28,443	\$ 30,046	\$.22
1981	\$ 788,676	\$ 458,308	\$116,496	\$ 29,579	\$ 27,359	\$.20
1980	\$ 854,561	\$ 399,438	\$ 96,426	\$ 183,120	\$ 96,741	\$.74

*The 1986 net loss includes a \$30 million loss (\$.17 per share) for the cumulative effect of a change in accounting principle for the adoption of FAS No. 96 and an extraordinary gain of \$10.1 million (\$.06 per share) on debt repayment.

Management's Discussion and Analysis of the Financial Summary

Results of Operations

1989 revenue of \$3.1 billion set a new record representing a 9% increase over revenue of \$2.9 billion in 1988 and a 64% increase over 1987's \$1.9 billion level. 1989's revenue growth over 1988 and 1987 was fueled by increased unit sales across most product lines. The

rebalancing of customer inventory on the 386™ family of microprocessors, which began in late 1988, had run its course by early 1989. Business increased as the year progressed, including volume shipments of the i486™ which began in the fourth quarter of 1989. Additionally, revenue from technology and patent licensing

agreements increased in 1989 over 1988 and 1987. Revenue growth slowed in 1989 relative to 1988 as revenue gains from increased unit volumes were moderated by changes in product mix and lower average selling prices, including price declines on proprietary products following a normal product maturity/pricing trend.

Gross margin of 45 % in 1989 is down from the 48 % recorded in 1988 and flat with 1987. The gross margin decline relative to 1988 is a result of the combination of lower average selling prices as noted above and changes in product mix to a higher proportion of lower margin products, including systems based on our microprocessors. Additionally, the Company recorded charges of approximately \$44 million to cost of sales in 1989, which related to the planned closure of two of the Company's older wafer fabrication plants. The 1989 gross margin benefited from the increased licensing revenue noted above and lower product costs, due to higher volumes and continued emphasis on containing overhead expenses and improving manufacturing yields. Proprietary microprocessors and related microprocessor peripherals continued to comprise a significant portion of revenues and gross margin during 1989.

Operating income of \$557 million in 1989 represents a \$37 million or 6 % decline from 1988's record of \$594 million and a \$311 million or 127 % increase over 1987's \$246 million. Research and development and marketing and administrative expenses of \$849 million increased 10 % over 1988 and 37 % over 1987 levels. Research and development expenses increased 15 % over 1988 and 41 % over 1987 mainly due to continued investments in strategic programs. Research and development as a percentage of revenues was 11.7 % in 1989, a slight increase over the 11.1 % recorded for 1988, but still lower than the 13.6 % recorded in 1987. We continue to believe that high investment in research and development is necessary for the Company to remain competitive and provide the flow of new products necessary to meet the continuing demands of the marketplace. Marketing and administrative expenses in 1989 increased 6 % from 1988 and 35 % from 1987 due to the increased business level and strategic marketing programs. However, these expenses as a percentage of revenues continued to decline in 1989 to 15.5 % from 15.9 % and 18.8 % for 1988 and 1987, respectively.

Interest expense of \$96 million increased \$20 million from 1988 and \$33 million from 1987 due primarily to higher average balances of interest bearing liabilities. Interest income and other of \$122 million is up \$11 million from 1988 and \$17 million from 1987. The increase from 1988 and 1987 is due to higher interest income generated from significantly higher average investment balances, which was partially offset by the \$35

million charge in 1989 to cover costs associated with the exit from BiiN, a joint venture with Siemens. Interest income and other for 1987 contained \$18 million in gains from the sale of buildings.

The provision for taxes for 1989 increased relative to 1988, although income before provision for taxes decreased. The lower 1988 tax rate is due to the recognition of deferred tax charges expensed (under FAS No. 96) in prior periods. The provisions for income taxes for 1989, 1988 and 1987 have been computed in accordance with FAS No. 96 which the Company adopted in 1988 as of the beginning of 1986.

Financial Condition

Intel's financial condition at December 30, 1989 remains strong. Total cash and cash equivalents and short-term and long-term investments increased \$204 million from the \$1.4 billion at December 31, 1988 due to the strong operating results of 1989 offset by investments in property, plant and equipment and the repayment of short-term and long-term debt.

The Company continued to make substantial investments in property, plant and equipment in 1989. \$422 million was expended for property, plant and equipment additions in 1989 and as of December 30, 1989, approximately \$191 million of additional funds have been committed for expenditures in future periods. The Company intends to continue investing in property, plant and equipment at substantial levels to be able to support continued growth, particularly in products based on new technologies.

In addition to the \$1.6 billion in cash and investments, the Company's sources of liquidity include foreign and domestic lines of credit totaling approximately \$1.0 billion and domestic and Euro commercial paper programs under which it is authorized to borrow up to \$700 million. As of December 30, 1989, the Company has short-term borrowings outstanding of \$121 million under the lines of credit and nothing outstanding under the commercial paper programs. Additionally, the Company has the ability to issue up to \$150 million of debt securities and up to 2 million foreign currency exchange warrants under a shelf registration statement filed with the Securities and Exchange Commission in 1988. Cash and investments, together with the lines of credit and commercial paper programs, will allow the Company to continue supporting strategic programs, research and development and capital spending. Management believes that the Company is in a strong financial position.

Financial Information by Quarter
(unaudited)

		Quarter Ended			
(Thousands — except per share data)		Dec. 30	Sept. 30	Jul. 1	Apr. 1
1989					
Net revenues		\$894,975	\$771,438	\$747,337	\$713,083
Cost of sales		\$488,861 ^(B)	\$434,865	\$408,585 ^(B)	\$388,668
Net income		\$122,700	\$ 71,998 ^(C)	\$ 99,319	\$ 97,004
Earnings per share		\$.64	\$.38 ^(C)	\$.53	\$.52
Market price range Common Stock ^(A)	High	\$ 35.75	\$ 33.00	\$ 33.25	\$ 27.75
	Low	\$ 29.75	\$ 28.25	\$ 25.33	\$ 23.25
Market price range 1995 Warrants ^(A)	High	\$ 16.75	\$ 14.88	\$ 15.33	\$ 11.00
	Low	\$ 13.13	\$ 11.88	\$ 10.63	\$ 9.75
Market price range 1992 Warrants ^(A)	High	\$ 13.50	\$ 11.63	\$ 12.13	\$ 10.00
	Low	\$ 10.13	\$ 9.50	\$ 9.25	\$ 9.00

		Quarter Ended			
(Thousands — except per share data)		Dec. 31	Sept. 24	Jun. 25	Mar. 26
1988					
Net revenues		\$727,340	\$784,939	\$726,683	\$635,807
Cost of sales		\$427,234	\$394,485	\$358,821	\$325,385
Net income		\$ 85,801	\$142,711	\$130,730	\$ 93,680
Earnings per share		\$.46	\$.78	\$.73	\$.54
Market price range Common Stock ^(A)	High	\$ 27.75	\$ 36.25	\$ 36.63	\$ 32.25
	Low	\$ 19.75	\$ 26.50	\$ 28.88	\$ 22.50
Market price range 1995 Warrants ^(A)	High	\$ 12.75	\$ 17.00	\$ 17.75	\$ 13.25
	Low	\$ 7.75	\$ 11.50	\$ 11.88	\$ 9.88
Market price range 1992 Warrants ^(A)	High	\$ 11.88	\$ 16.25	\$ 16.63	\$ 13.13
	Low	\$ 6.88	\$ 10.88	\$ 11.75	\$ 8.88
Market price range 1988 Warrants ^(A)	High	\$ —	\$ 9.75	\$ 10.50	\$ 6.13
	Low	\$ —	\$ 5.00	\$ 3.63	\$ 2.13

(A) Intel's Common Stock and warrants are traded in the over-the-counter market and are quoted on NASDAQ and in the Wall Street Journal and other newspapers. At December 30, 1989 there were approximately 19,300 holders of Common Stock and 193 and 104 holders of the 1995 and 1992 Warrants, respectively. Prices for the 1988 Warrants are given only through the last day they were traded (August 8, 1988) prior to their exercise or expiration. In March 1988 Intel's Common Stock began trading on the Zurich, Basle and Geneva, Switzerland exchanges. All Common Stock and warrant prices are closing prices per the NASDAQ/National Market System. Intel has never paid cash dividends and has no present plans to do so.

(B) Cost of sales for the quarters ended July 1 and December 30, 1989 includes \$17 million and \$27 million, respectively, related to costs associated with the closure of wafer fabrication facilities.

(C) Net income for the quarter ended September 30, 1989 includes the effect of a \$35 million pre-tax charge for the costs associated with exiting a joint venture.

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March 30, 1990 for the 1989 year,
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Mailstop: GR1-58
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Annual Meeting
The Intel Annual Meeting of
Stockholders will be held May
2, 1990 at the Radisson Hotel,
Sacramento, CA

Transfer Agent and Registrar
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Boston, MA 02102-0644
Mailstop 45-02-09
(Stockholders may call
(617) 575-2900, with any
questions regarding transfer
or ownership of Intel stock.)

Independent Auditors
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San Jose, California

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