# Intel Reports Third-Quarter Results

Third-Quarter Earnings Per Share $0.10;

Earnings Excluding Acquisition-Related Costs $0.11 Per Share

SANTA CLARA, Calif., Oct. 15, 2002 - Intel Corporation today announced third-quarter revenue of $6.5 billion, up 3 percent sequentially and flat year-over-year.

Third-quarter net income was $686 million, up 54 percent sequentially and up 547 percent year-over-year. Earnings per share were $0.10, up 43 percent sequentially and up 400 percent from $0.02 in the third quarter of 2001.

Third-quarter net income excluding acquisition-related costs[1] of approximately $108 million was $768 million, up 24 percent sequentially and up 17 percent year-over-year. Earnings excluding acquisition-related costs were $0.11 per share, up 22 percent sequentially and up 10 percent from $0.10 in the third quarter of 2001.

"Although the industry is experiencing one of its worst downturns ever, we continue to move our technology forward, introducing 18 new processors during the quarter, all on our leading-edge 0.13-micron technology," said Craig R. Barrett, Intel chief executive officer. "Our product and technology leadership, combined with solid execution, is paying off, bringing our microprocessor market segment share to its highest level in four years. Going forward, we remain committed to investments in new products and technologies, setting the stage for us to emerge even stronger when the economy and demand recover."

The second-quarter 2002 results included a $106-million charge to cost of sales related to winding down the online services business, along with a $112-million write-off of acquired intangibles. The third-quarter 2001 results included a one-time tax benefit of $100 million related to export sales in 2000. The 2001 results reflect charges for the amortization of goodwill, which is no longer amortized under generally accepted accounting principles (GAAP) with the adoption of FASB rule 142.

On October 10, a federal court in Texas ruled that Intel's Itanium® processor infringes patents owned by Intergraph* Corporation. Under the terms of an April 2002 settlement agreement between the parties, Intel agreed to pay Intergraph liquidated damages of $150 million within 30 days of entry of final judgment of infringement, and an additional $100 million if Intergraph prevails on appeal. Intel plans first to seek reconsideration of the ruling by the trial court, and is currently analyzing the accounting treatment for the payments the company may ultimately be required to make. Based on a preliminary analysis, payments are expected to be capitalized and amortized over a period of years, and the ruling is not expected to have a material effect on Intel's reported results of operations for the third quarter of 2002. Further information concerning the accounting treatment is expected to be included in Intel's Form 10-Q for the third quarter, to be filed in early November.

**BUSINESS OUTLOOK**

*The following statements are based on current expectations. These statements are forward-looking, and actual results may* *differ materially. These statements do not include the potential impact of any mergers, acquisitions, divestitures or other business combinations that may be completed after October 14, 2002.*

Continuing uncertainty in global economic conditions makes it particularly difficult to predict product demand and other related matters.

** Revenue in the fourth quarter is expected to be between $6.5 billion and $6.9 billion.

** Gross margin percentage in the fourth quarter is expected to be 49 percent, plus or minus a couple of points, approximately flat with the third quarter. Intel's gross margin percentage varies primarily with revenue levels, product mix and pricing, changes in unit costs, capacity utilization, and timing of factory ramps and associated costs.

** Gross margin percentage for 2002 is expected to be approximately 49 percent, near the low end of the previous expectation of 51 percent, plus or minus a few points, primarily due to lower than expected revenue in the second half, unrealized manufacturing savings in the third quarter, and higher than expected excess capacity charges in the second half.

** Expenses (R&D, excluding in-process R&D, plus MG&A) in the fourth quarter are expected to be approximately flat with $2.1 billion in the third quarter. Expenses, particularly certain marketing- and compensation-related expenses, vary depending on the level of revenue and profits.

** R&D spending for 2002, excluding in-process R&D, is expected to be approximately $4.0 billion.

** Capital spending for 2002 is expected to be approximately $4.7 billion, lower than the previous expectation of between $5.0 billion and $5.2 billion. The majority of the spending reduction is being driven by cost savings within ongoing construction projects. In addition, the company is slightly reducing its fourth-quarter equipment spending by re-using certain equipment from older process technology.

** Gains or losses from equity investments and interest and other in the fourth quarter are expected to be a net loss of $50 million due to the expectation of a net loss on equity investments of approximately $90 million, primarily as a result of impairment charges. Gains or losses from equity securities and interest and other assume no unanticipated events and vary depending on equity market levels and volatility, gains or losses realized on the sale or exchange of securities, impairment charges related to non-marketable and other investments, interest rates, cash balances, and changes in the fair value of derivative instruments.

** The tax rate for 2002 is now expected to be approximately 27.4 percent, excluding the impact of acquisition-related costs and an expected fourth-quarter tax benefit of approximately $65 million related to a small divestiture that closed early in the fourth quarter. The tax rate is lower than the previous expectation of 28.4 percent due to lower than expected profits for the year and a higher percentage of profits expected in low tax jurisdictions.

** Depreciation for the fourth quarter is expected to be approximately $1.2 billion.

** Amortization of acquisition-related intangibles and costs is expected to be approximately $90 million in the fourth quarter.

*The statements in this document that refer to plans and expectations for the fourth quarter, the year and the future are forward-looking statements that involve a number of risks and uncertainties. A number of factors in addition to those discussed above could cause actual results to differ materially from expectations. Demand for Intel's products, which impacts revenue and the gross margin percentage, is affected by business and economic conditions, as well as computing and communications industry trends, and changes in customer order patterns. Intel does business outside the United States and is thus subject to a number of other factors, including currency controls and fluctuations, and tariff and import regulations. If terrorist activity, armed conflict, civil or military unrest or political instability occurs in the United States, Israel or other locations, such events may disrupt logistics, security and communications, and could also result in reduced demand for Intel's products. Revenue and the gross margin percentage are affected by competing chip architectures and manufacturing technologies, competing software-compatible microprocessors, pricing pressures and other competitive factors, as well as market acceptance of Intel's new products. Future revenue is also dependent on continuing technological advancement, including developing and implementing new processes and strategic products, as well as sustaining and growing new businesses and integrating and operating any acquired businesses. The gross margin percentage could also be affected by the execution of the manufacturing ramp, excess manufacturing capacity, excess or obsolete inventory, and variations in inventory valuation, as well as adverse effects associated with product errata (deviations from published specifications). Results could also be affected by litigation, such as that described in Intel's SEC reports, as well as other risk factors listed in Intel's SEC reports, including the report on Form 10-Q for the quarter ended June 29, 2002.*

Status of Business Outlook and Mid-Quarter Business Update
Intel's corporate representatives will meet privately during the quarter with investors, investment analysts, the media and others, and may reiterate the Business Outlook. Intel intends to publish a Mid-Quarter Business Update on Dec. 5. From the close of business on Nov. 29 until publication of the Update, Intel will observe a "Quiet Period" during which the Outlook and the company's filings with the SEC on Forms 10-K and 10-Q should be considered to be historical, speaking as of prior to the Quiet Period only and not subject to update by the company. For more information about the Outlook, Update and related Quiet Periods, please refer to the Outlook section of the Web site at www.intc.com.

**THIRD-QUARTER REVIEW AND RECENT HIGHLIGHTS**

Financial Review
** The average selling price of Intel Architecture microprocessor units was slightly lower sequentially.

** The gross margin percentage was approximately 49 percent, at the low end of the company's expectation of approximately 51 percent plus or minus a couple of points, primarily due to unrealized manufacturing savings along with higher than expected excess capacity charges. The gross margin percentage was approximately flat with the second quarter when excluding the second-quarter charge for the online services business.

** On a year-to-date basis, the tax rate was approximately 27.4 percent, excluding the impact of acquisition-related costs, lower than the previous expectation of 28.4 percent. The effective tax rate for the third quarter was 25.2 percent, including an adjustment to reflect the new tax rate for the year.

** Gains or losses on equity investments and interest and other resulted in a net loss of $47 million, greater than the previous expectation of a net loss of $25 million. The net loss on equity investments was $96 million, including the impact of impairment charges of approximately $83 million.

Product Shipment Trends (Sequential)
** Intel Architecture microprocessor unit shipments were higher.

** Chipset unit shipments were higher.

** Motherboard unit shipments were approximately flat.

** Flash memory unit shipments were higher.

** Ethernet connectivity product unit shipments were higher.

Intel Architecture Business

During the quarter, Intel introduced 18 new microprocessors based on 0.13-micron technology, extending the company's performance leadership across all segments of computing. The company also launched four advanced chipsets and announced a range of technologies that will bring increased performance and new capabilities to the computing industry.

Intel increased its desktop performance leadership with high volume shipments of Intel® Pentium® 4 processors at 2.8, 2.66, 2.6 and 2.5 GHz. The company also announced plans to introduce a 3.06 GHz Pentium 4 processor that will bring Hyper-Threading (HT) Technology to the desktop in the fourth quarter. HT Technology allows a variety of multithreaded operating system and application software to run as though the PC has two processors, boosting performance by as much as 25 percent. Intel introduced new chipsets that support HT Technology along with leading edge DRAMs, a faster system bus and higher performing integrated graphics. The company also increased its value segment leadership with the Intel Celeron® processor at 2 GHz, and said it is developing an advanced security technology, codenamed LaGrande, that will be integrated into future Intel platforms.

Intel launched 11 new mobile PC processors for mainstream notebooks at speeds up to 2.2 GHz. The company also announced that its next-generation Banias mobile PC platform will include an 802.11a/b wireless networking solution along with software that will simplify and improve the security of wireless networking. Intel and VeriSign* announced plans to bring wireless security to Banias-based corporate notebooks.

For the enterprise, Intel delivered Xeon™ processors at 2.8 and 2.6 GHz for two-way servers and workstations. Intel and IBM* announced plans to develop blade servers that will offer highly scalable performance, new reliability features and a lower total cost of ownership. In addition, the Itanium 2 processor continued to set new industry performance records. Intel and NEC announced that an Itanium 2-based, 32-way server achieved the world's highest TPC-C benchmark result on a non-clustered Microsoft* Windows* platform. Hewlett-Packard* announced new four-processor performance records on the SAP* R/3 two-tier SD benchmark as well as the TPC-C benchmark.

Intel Communications Group

Intel began OEM customer sampling of a product code-named Calexico that will connect notebook PCs with 802.11 wireless networks in offices, homes and public "hot spots" such as airports, hotels and restaurants. Calexico is designed to support the 802.11 a and b specifications, and is being extensively validated for reliable, secure and easy-to-use wireless connectivity in forthcoming Banias processor-based notebook PCs.

In network processing, Intel introduced its first control plane processor based on the Intel® XScale® core along with an applications and services processor based on the Low-Voltage Intel® Xeon™ processor, enabling cost-effective and flexible design of feature-rich networking systems. In optical, Intel introduced metropolitan area networking products based on tuneable laser technology that deliver multichannel, 10-Gbps throughput across the telecom industry's primary optical networking protocols. In storage, Intel introduced four system controllers, becoming the first company to offer a full line of RAID products that support the leading industry drivers, development tools and firmware.

Intel also announced that it is adding communications capabilities to its forthcoming 90-nanometer (nm) process technology. The company will integrate high-speed silicon-germanium transistors and "mixed-signal" circuitry for a new generation of faster, more integrated, less-costly communications chips to be introduced beginning next year. The announcement underscores Intel's goal of driving the convergence of computing and communications through advances in silicon.

Wireless Communications and Computing Group
Intel introduced Wireless MMX™ technology and two flash memory technologies designed to bring the richness and excitemer of desktop PC applications to wireless and handheld products based on the Intel® Personal Internet Client Architecture (Intel® PCA).

Intel XScale technology-based processors have been adopted in more than 25 newly introduced handheld devices, including PDAs from Acer*, Asustek*, Fujitsu-Siemens*, HP*, Hitachi*, Sharp* and Toshiba*. During the quarter, Sony* introduced the first Palm* operating system-based PDA based on XScale technology, while BSQUARE* introduced the first 2.5G cell phone/PDA based on the technology. Philips* announced a new design that will enable the company and its OEM customers to market a new generation of interactive, digital audio/video devices based on the XScale core. SONICblue* selected XScale technology to power a portable media player that will allow users to watch television programs transferred from ReplayTV* devices as well as play PC-based audio, video and photos.

Technology and Manufacturing Group Intel disclosed nanotechnology breakthroughs that are anticipated to allow the company to be the first to bring 90-nm, 300-mm process technology into volume production next year. Intel's new process will be the first to combine the smallest, highest-performing transistors utilizing strained silicon, a one-square-micron SRAM cell, and high-speed interconnects that integrate copper with a new, low-k dielectric material. Intel said it plans to reuse over 75 percent of its 0.13-micron, 300-mm process tools when it transitions to 90-nm, 300-mm production, thereby reducing costs and facilitating a mature tool set.

In addition, Intel disclosed an experimental three-dimensional (3-D) tri-gate transistor design that achieves higher performance with greater power efficiency than traditional planar transistors. Intel believes the 3-D transistor will address obstacles to scaling transistors below 30 nm and help continue the pace of Moore's Law beyond the decade.

**EARNINGS WEBCAST**

Intel will hold a public webcast at 2:30 p.m. PDT today on its Investor Relations Web site at www.intc.com. A replay of the webcast will be available until Oct. 22 on the Web site and by phone at (719) 457-0820, confirmation code 735163.

Intel, the world's largest chip maker, is also a leading manufacturer of computer, networking and communications products. Additional information about Intel is available at www.intel.com/pressroom.

[1]Acquisition-related costs consist of one-time write-offs of purchased in-process R&D, amortization of acquisition-related intangibles and costs, write-offs of acquisition-related intangibles, and, prior to 2002, amortization of goodwill. Intangibles include, for example, the value of the acquired companies' developed technology. Earnings excluding acquisition-related costs differ from earnings presented according to GAAP because GAAP earnings include these costs.

**INTEL CORPORATION**
**CONSOLIDATED SUMMARY INCOME STATEMENT DATA**
(In millions, except per share amounts)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | Sept. 28, 2002 | Sept. 29, 2001 | Sept. 28, 2002 | Sept. 29, 2001 |
| NET REVENUES | $ 6,504 | $ 6,545 | $ 19,604 | $19,556 |
| Cost of sales | 3,331 | 3,553 | 9,982 | 10,085 |
| Research and development | 1,006 | 930 | 3,012 | 2,844 |
| Marketing, general and administrative | 1,095 | 1,064 | 3,230 | 3,393 |
| Amortization of goodwill | - | 447 | - | 1,305 |
| Amortization of acquisition-related intangibles and costs | 102 | 162 | 442 | 483 |
| Purchased in-process research and development | 6 | - | 20 | 198 |
| Operating costs and expenses | 5,540 | 6,156 | 16,686 | 18,308 |
| OPERATING INCOME | 964 | 389 | 2,918 | 1,248 |
| Losses on equity securities, net | (96) | (182) | (201) | (179) |
| Interest and other, net | 49 | (70) | 140 | 320 |

| | | | | |
|---|---|---|---|---|
| INCOME BEFORE TAXES | 917 | 137 | 2,857 | 1,389 |
| Income taxes | 231 | 31 | 789 | 602 |
| NET INCOME | $ 686 | $ 106 | $ 2,068 | $ 787 |
| BASIC EARNINGS PER SHARE | $ 0.10 | $ 0.02 | $ 0.31 | $ 0.12 |
| DILUTED EARNINGS PER SHARE | $ 0.10 | $ 0.02 | $ 0.30 | $ 0.11 |
| COMMON SHARES OUTSTANDING | 6,646 | 6,718 | 6,669 | 6,721 |
| COMMON SHARES ASSUMING DILUTION | 6,712 | 6,876 | 6,792 | 6,888 |

**PRO FORMA INFORMATION EXCLUDING ACQUISITION-RELATED COSTS**

The following pro forma supplemental information excludes the effect of acquisition-related costs. This pro forma information is not prepared in accordance with generally accepted accounting principles.

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | Sept. 28, 2002 | Sept. 29, 2001 | Sept. 28, 2002 | Sept. 29, 2001 |
| Pro forma operating costs and expenses | $ 5,432 | $ 5,547 | $ 16,224 | $16,322 |
| Pro forma operating income | $ 1,072 | $ 998 | $ 3,380 | $ 3,234 |
| Net income excluding acquisition-related costs | $ 768 | $ 655 | $ 2,410 | $ 2,608 |
| Basic earnings per share excluding acquisition-related costs | $ 0.12 | $ 0.10 | $ 0.36 | $ 0.39 |
| Diluted earnings per share excluding acquisition-related costs | $ 0.11 | $ 0.10 | $ 0.35 | $ 0.38 |

**INTEL CORPORATION**
**CONSOLIDATED SUMMARY BALANCE SHEET DATA**
(In millions)

| | Sept. 28, 2002 | June 29, 2002 | Dec. 29, 2001 |
|---|---|---|---|
| CURRENT ASSETS | | | |
| Cash and short-term investments | $ 9,615 | $ 8,957 | $ 10,326 |
| Trading assets | 1,627 | 1,650 | 1,224 |
| Accounts receivable | 3,089 | 2,907 | 2,607 |
| Inventories: | | | |
| Raw materials | 286 | 242 | 237 |
| Work in process | 1,520 | 1,393 | 1,316 |
| Finished goods | 675 | 870 | 700 |
| | 2,481 | 2,505 | 2,253 |
| Deferred tax assets and other | 1,233 | 1,182 | 1,223 |
| Total current assets | 18,045 | 17,201 | 17,633 |
| Property, plant and equipment, net | 17,970 | 18,176 | 18,121 |
| Marketable strategic equity securities | 56 | 96 | 155 |
| Other long-term investments | 1,182 | 1,438 | 1,319 |
| Goodwill, net | 4,334 | 4,338 | 4,330 |
| Other assets | 2,049 | 2,249 | 2,837 |
| TOTAL ASSETS | $ 43,636 | $ 43,498 | $ 44,395 |
| CURRENT LIABILITIES | | | |
| Short-term debt | $ 317 | $ 383 | $ 409 |
| Accounts payable and accrued liabilities | 4,492 | 4,195 | 4,755 |
| Deferred income on shipments to distributors | 512 | 498 | 418 |
| Income taxes payable | 960 | 672 | 988 |
| Total current liabilities | 6,281 | 5,748 | 6,570 |
| LONG-TERM DEBT | 1,000 | 1,081 | 1,050 |
| DEFERRED TAX LIABILITIES | 1,048 | 1,089 | 945 |
| STOCKHOLDERS' EQUITY | 35,307 | 35,580 | 35,830 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 43,636 | $ 43,498 | $ 44,395 |

**INTEL CORPORATION**
**SUPPLEMENTAL FINANCIAL AND OTHER INFORMATION**
(In millions)

| | Q3 2002 | Q2 2002 | Q3 2001 |
|---|---|---|---|
| GEOGRAPHIC REVENUES: | | | |
| Americas | 32% | 35% | 37% |
| Asia-Pacific | 38% | 38% | 31% |
| Europe | 23% | 20% | 25% |
| Japan | 7% | 7% | 7% |
| CASH INVESTMENTS: | | | |
| Cash and short-term investments | $9,615 | $8,957 | $9,158 |
| Trading assets - fixed income (1) | $1,313 | $1,185 | $726 |
| Total cash investments | $10,928 | $10,142 | $9,884 |
| INTEL CAPITAL PORTFOLIO: | | | |
| Trading assets - equity securities (2) | $89 | $187 | $67 |
| Marketable strategic equity securities | $56 | $96 | $165 |
| Other strategic investments | $1,169 | $1,177 | $1,772 |
| Total Intel capital portfolio | $1,314 | $1,460 | $2,004 |
| TRADING ASSETS: | | | |
| Trading assets - equity securities offsetting deferred compensation (3) | $225 | $278 | $266 |

| | | | |
|---|---|---|---|
| Total trading assets - sum of 1+2+3 | $1,627 | $1,650 | $1,059 |
| SELECTED CASH FLOW INFORMATION: | | | |
| Depreciation | $1,136 | $1,135 | $1,054 |
| Amortization of goodwill | $0 | $0 | $447 |
| Amortization of acquisition-related intangibles & costs | $102 | $229 | $162 |
| Purchased in-process research and development | $6 | $14 | $0 |
| Capital spending | ($955) | ($1,115) | ($1,365) |
| Stock repurchase program | ($1,001) | ($1,002) | ($1,002) |
| Proceeds from sales of shares to employees, tax benefit & other | $279 | $239 | $314 |
| Dividends paid | ($133) | ($134) | ($135) |
| Net cash used for acquisitions | ($7) | ($50) | $0 |
| SHARE INFORMATION: | | | |
| Average common shares outstanding | 6,646 | 6,677 | 6,718 |
| Dilutive effect of stock options | 66 | 126 | 158 |
| Common shares assuming dilution | 6,712 | 6,803 | 6,876 |
| STOCK BUYBACK: | | | |
| BUYBACK ACTIVITY: | | | |
| Shares repurchased | 56.6 | 37.2 | 34.9 |
| Cumulative shares repurchased | 1,651.4 | 1,594.8 | 1,491.7 |
| BUYBACK SUMMARY: | | | |
| Shares authorized for buyback | 1,820.0 | 1,820.0 | 1,520.0 |
| Increase in authorization | - | - | 300.0 |
| Cumulative shares repurchased | (1,651.4) | (1,594.8) | (1,491.7) |
| Shares available for buyback | 168.6 | 225.2 | 328.3 |
| OTHER INFORMATION: | | | |
| Employees (in thousands) | 81.7 | 83.2 | 86.2 |
| Days sales outstanding | 36 | 37 | 38 |

**INTEL CORPORATION**
**SUPPLEMENTAL FINANCIAL AND OTHER INFORMATION**
($ in millions)

| | Q3 2002 | Q2 2002 | YTD 2002 | Q3 2001 | YTD 2001 |
|---|---|---|---|---|---|
| OPERATING SEGMENT INFORMATION: | | | | | |
| Intel Architecture Business | | | | | |
| Revenues | 5,407 | 5,213 | 16,388 | 5,393 | 15,653 |
| Operating profit | 1,405 | 1,362 | 4,569 | 1,329 | 4,439 |
| Intel Communications Group | | | | | |
| Revenues | 482 | 536 | 1,536 | 580 | 1,990 |
| Operating loss | (177) | (127) | (454) | (218) | (606) |
| Wireless Communications and Computing Group | | | | | |
| Revenues | 586 | 532 | 1,577 | 509 | 1,714 |
| Operating loss | (30) | (98) | (196) | (59) | (236) |
| All other | | | | | |
| Revenues | 29 | 38 | 103 | 63 | 199 |
| Operating loss | (234) | (498) | (1,001) | (663) | (2,349) |
| Total | | | | | |
| Revenues | 6,504 | 6,319 | 19,604 | 6,545 | 19,556 |
| Operating profit | 964 | 639 | 2,918 | 389 | 1,248 |

The Intel Architecture business products include microprocessors, motherboards and other related board-level products, including chipsets. The Intel Communications Group's products include Ethernet connectivity products, network processing components, embedded control chips and optical components. The Wireless Communications and Computing Group's products include flash memory, application processors and cellular baseband chipsets for cellular handsets and handheld devices.

The "all other" category includes acquisition-related costs, including amortization of identified intangibles, in-process research and development, and write-offs of acquisition-related intangibles. "All other" also includes the results of operations of certain seed businesses that support the company's initiatives as well as the results of the Web hosting business. In addition, the "all other" category includes certain corporate-level operating expenses, including a portion of profit-dependent bonus and other expenses that are not allocated to the operating segments. In Q2 2002, "all other" included the charge for impairment of identified intangibles, primarily related to the previous acquisition of Xircom, as well as the charge related to winding down the Web hosting business. For quarters in 2001, "all other" includes goodwill amortization, whereas goodwill is no longer amortized beginning in 2002.