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An Insider's Look at Intel Corporation's Redesigned Form 10-K

Since 1980, the structure of the Form 10-K and the sequence of items required to be presented has changed remarkably little. Intel Corporation took a different path this year and rethought this all-important annual filing. Participants in this process provide insight into Intel's redesign process, an overview of the changes made, and the lessons learned for those who may wish to consider innovations for their annual report.

By Edward Vermeer and Michael Titera

Intel Corporation (Intel) did something unique this year when it redesigned its annual report to stockholders and filed its Form 10-K for the fiscal year ended December 30, 2017. Public companies have long followed the traditional order of the required items as listed in the SEC's Form 10-K.¹ Intel, on the other hand, changed the order and presentation of the content in its annual report to improve readability and better present how Intel organizes and manages its business. The result was a completely redesigned annual report.²

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The company's annual report redesign includes, among other enhancements: reordering disclosures to give important information greater priority; increasing the number of charts, diagrams, and illustrations to explain key points and trends; and creating completely new three-page summaries for the five Intel operating segments to better explain its business. The process, which involved considerable coordination among various Intel groups, as well as significant executive management involvement, consisted of three phases: (1) brainstorming design; (2) implementation; and (3) overcoming technical challenges with the final filing.

The work began early in the summer of 2017 with the internal working group brainstorming and preparing a proof of concept draft of key portions of the annual report for initial reviews by management. The working group included, among others, individuals from the company's external financial reporting, legal, corporate strategy, corporate responsibility, investor relations, and corporate communications groups. The company also retained an outside design agency to assist with the new layout and presentation. The working group's foundational principle was to create a best-in-class annual report on Form 10-K. In addition to that overarching mission, specific objectives of the redesign included: revising the information flow to provide a cohesive and efficient approach to help the stockholder-reader understand

the business; describing Intel's strategy of transforming from a PC-centric company to a data-centric company and the results of that transformation; increasing the transparency of information; and going beyond compliance with required Form 10-K disclosures to include additional information that would benefit the stockholder-reader.

Review of the Traditional Practice and the Intel Approach

The vast majority of reporting companies organize their annual report on Form 10-K following the sequence of disclosures found in the Form 10-K, labeling each section with the corresponding "Item" number and caption such as "Item 1. Business" and "Item 1A. Risk Factors." While SEC rules require reports to "contain the numbers and captions of all items of the appropriate form,"³ the rules do not prohibit presenting the information in a sequence different from that found in the form.⁴

The new sections of Intel's redesigned annual report bring together information that previously was disclosed in multiple separate locations.

The SEC rules do not require bar charts, circle diagrams, or other illustrations to explain key points and, with the exception of tables required for specific financial information, a company can satisfy almost every Form 10-K disclosure requirement by providing the information in narrative form. The performance graph is one exception and the only graph required by Regulation S-K for most public companies.⁵ Some companies provide to stockholders a "10-K wrap" that extracts key information from the body of the annual report and presents it in chart or diagram form while the format of the Form 10-K itself within the cover pages of the "wrap" remains

unchanged. However, most companies simply provide the required information in narrative form alone within the body of the annual report.

The Intel team determined early on to present information more visually than in the past to supplement the required disclosures. The working group continued with its design work into the early fall of 2017, discussing and proposing specific enhancements and changes. To keep the process moving and aligned with key decision makers, the team met regularly with key stakeholders, such as the general managers and controllers of the business unit operating segments, to refine the disclosure proposals. Initial design layouts and mockups also were reviewed with Intel's chief financial officer, members of his staff, and members of the audit committee. The initial redesign draft went through various reviews at the working group level. As the work progressed, a redesigned annual report started to take shape with a number of interesting changes.

Overview of the Changes

The first change that one sees when reading Intel's 2017 annual report is the complete rethinking of the report's organization. Disclosures are organized in a way that prioritizes key information and groups together related data. As described below, the result is an easier-to-follow report.

The reorganization of the information traditionally found within the "Business" section required by Part I, Item 1 of Form 10-K is one example. The information previously disclosed by Intel in this section was reorganized in a new "Fundamentals of Our Business" section with a reordering of information to give important information greater priority. For example, "A Year in Review" is the very first section and "How We Organize Our Business" also occupies a position early in the document. "Management's Discussion and Analysis (MD&A) and Results of Operations" immediately follows the "Fundamentals of Our Business" section. This is a departure from the traditional Form 10-K order, which places "Management's Discussion and Analysis of Financial

Condition and Results of Operations” and “Selected Financial Data” much further back in the report. This move highlights and gives more prominence to the discussion of how management views the business.

The new sections of Intel’s redesigned annual report also bring together information that previously was disclosed in multiple separate locations. For example, the “Capital Allocation” page groups together related disclosures historically made in various locations in response to Items 1, 5, 6, and 7 of the Form 10-K. Intel’s redesigned annual report groups other required disclosures within the “Other Key Information” section of the document. Overall, the redesign process reorganized required items from the Form 10-K in a way that made logical sense and prioritized important information at the beginning of the document.

As a consequence of this reorganization, Intel included a one-page “Form 10-K Cross-Reference Index,” which is a useful guide for the reader and anyone familiar with the traditional Form 10-K organization. It lists all of the items required in the Form 10-K and the pages where information responsive to each item can be found in the report. Items that are “not applicable” to Intel are included in the Cross-Reference Index, but do not have a separate section that takes up space in the document as in prior years’ Form 10-Ks. Detailed breakdowns of Item 1 (Business) and Item 7 (MD&A) within the index make finding specific information easier than in a traditional Form 10-K.

A second major change was the addition of entirely new sections to the annual report, starting with an “Introduction to Our Business” page highlighting who Intel is, its vision, and what it’s committed to. This introductory page acquaints the stockholder-reader with the ongoing corporate transformation at Intel as it grows beyond its PC and server businesses into data-centric businesses, a theme discussed in further detail in the main portion of the Form 10-K. The new “Year in Review” page that follows is the starting point for a deep dive into Intel’s business and results, which continues over the next several new sections.

A Deep Dive into Intel’s Business

“A Year in Review” provides an executive summary focusing on key metrics of revenue, operating income, and earnings per share, presented both on a GAAP and non-GAAP basis to show required information, as well as information relied upon by management in operating and evaluating the business.⁶ This two-page summary also highlights key milestones, such as new product introductions and acquisitions/divestitures. A reader learns from this executive summary precisely how Intel is progressing in its transformation from a PC-centric to a data-centric company both in quantitative terms (with the operating results page) and qualitative terms (with the key milestones page).

The “How We Organize Our Business” section of the Form 10-K provides an insightful look into the highlights, challenges, and opportunities for Intel’s businesses. The challenges identified in this section disclose known trends or uncertainties that have had or are reasonably expected to have an impact on the businesses.⁷ This page also mentions Intel’s strategy for realizing the opportunities available to each of its segments, serving as an introduction to the company-wide strategy discussion in the subsequent section titled “Our Strategy.” This section is also a good orientation to Intel’s operating segments for the sections that follow.⁸

Another significant change to Intel’s redesigned annual report is the creation of new three-page summaries for the five Intel operating segments reported within the MD&A section. As emphasized repeatedly by the SEC Staff,

one of the principal objectives of MD&A is to give readers a view of the company through the eyes of management by providing both a short and long-term analysis of the business.⁹

Taking this to heart, Intel set out to determine how to use these summaries to show readers how management views the operating segments and those segments’ future opportunities and challenges. The team at Intel created a uniform template to enable

comparability across Intel's Client Computing Group, Data Center Group, Internet of Things Group, Non-Volatile Memory Solutions Group, and Programmable Solutions Group. Each of these operating segments is analyzed and discussed in its own section, a revision designed to improve transparency at the segment level and provide stockholders with a deep understanding of the segment from the point of view of the business unit's general manager. The Intel team worked closely with each of the business units' general managers, who generally report to the chief executive officer, to develop the content of the operating segment summaries. Because the views of each general manager are reflected in the three-page summaries, a reader is able to benefit from an in-depth view of the business from the viewpoint of the person directly responsible for the operations of the business unit.

The first page of each operating segment summary provides an overview of the segment with a prominent circle diagram showing the segment's revenue contribution as a percentage of Intel's total revenue. The Client Computing Group is Intel's largest business unit currently delivering over half of the company's revenue so logically it is the first operating segment summary presented. Each of the summaries continues with highlights of material developments at the segment level during the completed fiscal year as well as segment imperatives for the future. This first page also includes five-year trend information in the form of bar charts and line graphs supplementing the requirements of Item 301 of Regulation S-K, as well as pictures of key products and customer experiences.

Intel discusses its strategy at each segment.

The second page provides a market and business overview starting at the macro level, with discussions of trends and strategy to explain developments in the market and how the segment is addressing those developments. Intel's segments operate in a range of market types from new, emerging growth

areas to segments where the landscape is shifting. To supplement the corporate-level "Our Strategy" section included earlier in the report, Intel discusses its strategy at each segment; for example, its plans to enhance platforms and adjacent technologies within the Client Computing Group and focus on market sectors that align well with Intel's ability to provide high-performance computing solutions within the highly fragmented market of the Internet of Things Group. A common element is the explosion of data growth in a smart, connected world and the increasing amounts of data from the cloud and its connection to billions of smart devices, including PCs, autonomous cars, smart homes, and virtual reality systems. Intel's transition from a PC-centric to a data-centric company consistent with the world's transformation to a more connected and more data-driven environment with significant amounts of data being generated by intelligent and connected machines is a recurring theme throughout the corporate and segment-level discussions in the annual report.

The operating segment summary pages include information about the expected size of the total available market (TAM) or the expected compound annual growth rate (CAGR) for the segment. As noted in the citations included in the report, some of the information is found in a single source; for example, programmable logic device (PLD) market growth is based on the Gartner, Inc., 3Q17 Forecast Analysis; Electronics and Semiconductors, Worldwide, 2017-2021. Other TAM and CAGR information was calculated by Intel and derived from a variety of industry analyst reports. TAM and CAGR information is not expressly required by applicable SEC rules, but was included to provide additional insight into how management views its business.

A prominent note at the beginning of the report makes clear that such third-party information is based on reports and other publications from industry analysts, market research firms, and other independent sources, as well as management's own good faith estimates and analyses. This note explains that such information is based on reputable third-party sources, but they have not been independently

verified. It further indicates that the reports generally are available to the public and were not commissioned by Intel. It notes that the information is based on estimates, forecasts, projections, market research or similar methodologies that are inherently subject to uncertainties and may differ materially from actual events, consistent with the forward-looking statements disclaimer included above in the Form 10-K.

The second page of each operating segment summary also calls out specific products and new product launches, such as processors and modems. It includes discussions of products and competitiveness that provide more context around each segment's product offerings and Intel's competitive position.

The third and final page discloses the financial performance of the operating segment, including revenue and operating income summaries explaining what factors impacted changes during the periods covered, as well as a "revenue walk" for each of the Client Computing Group and Data Center Group. The revenue walk is an easy-to-follow bar chart starting with revenue from the prior fiscal period with each material factor that affected revenue during the period resulting in a step up or step down in the chart to conclude with revenue at the end of the fiscal period. These pages also include a breakdown disclosing average selling price (ASP) and volume impacts from platform products and adjacent products.

Visually Engaging Design

The visually engaging design of Intel's annual report is intended to capture and maintain the reader's attention in contrast to a traditional Form 10-K. Intel's annual report includes a number of design elements. Intel increased the number of bar charts, circle diagrams, and illustrations to make concepts easier to understand. Its Form 10-K includes well over three dozen illustrations or images and over two dozen bar charts. Many of the sections within the annual report use visual elements to explain key points related to historical operations as well as future strategy.

As one example, the section titled "Our Strategy" sets forth Intel's strategy using graphics to explain

that its computing solutions are applicable from the cloud to devices at the edge enabling a "Virtuous Cycle of Growth." This key graphic shows the connection between the cloud and the billions of smart devices, including PCs, autonomous cars, and virtual reality systems, all of which are consuming and generating vast amounts of data. Another graphic emphasizes this connection from the devices at the edge, such as mobile phones, laptops, and self-driving cars, to the wireless technology that connects those devices to the access network and core network, and finally to the cloud. The growth in data from all of these sources is identified as a corporate opportunity in various places throughout the report with different Intel operating segments describing how they plan to meet that opportunity.

Intel uses visually engaging design to capture and maintain the reader's attention.

Then at the operating segment level with data growth expanding, the Non-Volatile Memory Solutions Group's innovations in technology address the need for various storage tiers, based on different usages, to take up the challenge of getting critical, or "hot," data close to the CPU for rapid access. The operating segment summary for the Non-Volatile Memory Solution Group includes an illustration with a series of concentric half-circles clearly showing how different Intel memory products are designed to fit in close to the CPU with Intel Optane™ memory closest to the CPU with solid-state drive (SSD) technologies and 3D NAND technology fulfilling needs further from the CPU.

Another example of the use of additional graphics is the "Sources and Uses of Cash" graphic illustrating three years of cash flow information. Further, the inclusion of pictures within the new three-page operating segment summaries identifies for the reader key products and customer experiences within each segment. In each of these areas, Intel uses visually

engaging design to capture and maintain the reader's attention. Finally, the annual report uses an increased number of headings, subheadings, and captions to make information easier to find.

The Work Continues

By early September, the team made an interim presentation to executive management of a proof of concept containing the key proposed changes to the Form 10-K. Particular sections of the report, including parts of the Business section, "How We Organize Our Business," "Capital Allocation," and a mockup of the "Year in Review," had been outlined with initial versions drafted. The core team understood the importance of coordinating reviews among the large number of individuals at Intel providing input with regard to particular disclosure items covered in the redesigned report (e.g., human capital and sustainability). The prepared sections of the redesign draft already had undergone a number of revisions at the working group level and were reviewed with the members of Intel's disclosure committee, who are responsible for overseeing SEC reporting. The working group reviewed the revised sections of the annual report with Intel's chief financial officer and general counsel shortly after Labor Day. An update was provided to the chairman of Intel's audit committee a few weeks later. Another round of reviews of a design draft were held with the members of Intel's disclosure committee and with the chief financial officer in mid-November.

During December, the working team prepared a full-length draft of the Form 10-K with placeholders for the earnings results and circulated the draft for review. At that point, the reorganization and design were nearly complete with the new sections described above included in the draft.

Intel's fiscal year ended on December 30, 2017 and then the pace of work accelerated. Once quarter close was completed, Intel's results and numbers were gathered from the SAP systems using business object reporting tools and populated in the Form 10-K draft. With most of the design work substantially

completed prior to fiscal year end, the remainder of the Form 10-K preparation process followed the normal sequence of steps from January to mid-February. Key disclosures and the Form 10-K were reviewed by Intel's disclosure committee and later Intel's audit committee and board of directors. Intel was ready to file its Form 10-K subject to one final critical step for a document of that size—test filing with the SEC's EDGAR system.

Technical Requirements

Together with the focus on improved disclosure within the redesigned Form 10-K, Intel was mindful of the technical issues potentially implicated by the redesign. In order to be properly accepted by and uploaded to the SEC's EDGAR system, a filing needs to meet certain size, formatting, and other technical requirements. Given the increased use of graphics within the filing, Intel took precautions to ensure that file size limitations did not pose a problem for the filing. Multiple test filings of the Form 10-K were performed well in advance of the filing date and a backup plan was in place in case problems were experienced in the filing process.¹⁰

Any company considering undertaking a redesign process should evaluate carefully formatting and font limitations with the assistance of a financial printer or filing agent with expertise in this area. In some respects, the technological development of the SEC's EDGAR system has not kept pace with the technology used by most companies and, as a result, the disclosures and images a company is able to produce may not be able to be flawlessly uploaded on EDGAR.

Another technical consideration in light of the extensive use of graphics and visual design elements was compliance with Rule 304(e) of Regulation S-T, which specifies that "filers may not present in a graphic or image file information such as text or tables that users must be able to search and/or download into spreadsheet form." In Question 118.01 of the Compliance and Disclosure Interpretations regarding Regulation S-T, the SEC Staff set forth its view that

information such as text or tables that users must be able to search and/or download consists of all information that the filer is required to include in the particular filing, such as disclosures in response to applicable form and Regulation S-K items.

However, the SEC Staff also noted that

with regard to required disclosures, a filer may present required information using graphics that are not text-searchable . . . if the filer also presents the same information as searchable text or in a searchable table within the filing. The searchable information could be included, for example, together with the related graphic in the filing or in an appendix to the filing.

Compliance with this rule and related guidance required the team, first, to identify what information was required by SEC rules and, second, to the extent such information was not text-searchable, to ensure that it was either included in text-searchable format elsewhere in the filing or included in a text searchable appendix to the filing. The working group filed a separate exhibit, Exhibit 99.1, to disclose the information that was included only in graphical form in the body of the Form 10-K.

Lessons Learned

There are some key takeaways for other companies interested in redesigning their annual report on Form 10-K. They need to start the process early given the substantial amount of work likely involved, depending upon the scope and nature of the redesign changes. Intel started its work early in the summer of 2017 with additional time built into the company's reporting timelines to accommodate the additional reviews and preparation of mockups and proof of concept designs well prior to fiscal year end. Most of the design work was completed prior to Intel's fiscal year end, avoiding the complications of attempting

to redesign the annual report at the same time as the significant amount of work required with preparing any Form 10-K and closing the books on a fiscal period in the normal course.

The redesign of an annual report on Form 10-K can involve a large number of individuals from a variety of groups. The working group at Intel included individuals from the company's external financial reporting, legal, corporate strategy, corporate responsibility, investor relations, and corporate communications groups. The team also sought input from a large number of individuals at Intel with regard to particular disclosure items. Given the increased focus on showing Intel's business from the general manager's perspective, it was necessary to coordinate closely with each operating segment's managers, controllers, and support teams to ensure that the disclosures were complete and accurate.

The importance of coordination among the various working group members and extended team members cannot be understated. There was a skilled, experienced core team at Intel to run and coordinate the process. There were various planning and discussion meetings held throughout the designing stage of the annual report at Intel to achieve that coordination. The sequence of steps during the Form 10-K preparation, as well as roles and responsibilities, were clearly established and laid out in checklists and calendars to track progress.

Finally, a team tasked with redesigning its annual report on Form 10-K needs the support and engagement of executive management from the beginning to achieve this objective. Executive management at Intel was involved from the early vision and thought process stage during the summer of 2017, through various reviews of the proof of concept during the early fall of 2017, and through the completion and filing of the Form 10-K. This involvement was critical to keeping aligned on objectives and ensuring those objectives were satisfied.

Conclusion

Companies should consider redesigning their annual reports, including reordering disclosures to give

important information greater priority and improve readability. As observed in this article, redesigning an annual report on Form 10-K requires a great deal of time, effort, and coordination. Many companies may continue to follow the traditional order and structure for their annual reports because of the effort required to complete a redesign and the familiarity of the traditional approach; however, even if a company does not completely redesign its annual report as Intel did, companies ought to consider taking any number of smaller steps, such as using charts, diagrams, and illustrations, to explain key points and supplement their disclosures. The results will be well worth the effort.

Notes

1. SEC Release No. 33-6231, "Amendments to Annual Report Form, Related Forms, Rules, Regulations, and Guides; Integration of Securities Act Disclosure Systems," September 2, 1980 (45 Federal Register at 63630, September 25, 1980). While the SEC recently has considered various changes intended to simplify and increase the effectiveness of the integrated disclosure system (see, e.g., SEC Release No. 33-10425, "FAST Act Modernization and Simplification of Regulation S-K," October 11, 2017, available at <https://www.sec.gov/rules/proposed/2017/33-10425.pdf>), the reporting rules applicable to Form 10-K have yet to change in a meaningful way, leaving companies with the task of coming up with ways to make their disclosures more effective on their own.
2. Intel's redesigned Annual Report on Form 10-K can be accessed through the company's investor relations page at: https://s21.q4cdn.com/600692695/files/doc_financials/2017/annual/Intel_Annual_Report_Final-3.20.pdf
3. Rule 12b-13 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") provides that each "report shall contain the numbers and captions of all items of the appropriate form, but the text of the items may be omitted."
4. Flexibility in presentation is afforded by General Instruction C.(1) to Form 10-K, which provides that "[t]his form is not to be used as a blank form to be filled in, but only as a guide in the preparation of the report" and Exchange Act Rule 12b-23(a)(2), which states "[i]nformation in any part of the . . . report may be incorporated by reference in answer, or partial answer, to any other item of the . . . report."
5. Regulation S-K, Item 201(e).
6. Care was taken to give equal or greater prominence to financial measures presented in accordance with GAAP consistent Regulation S-K, Item 10(e) and related SEC guidance.
7. Regulation S-K, Item 303(a)(3)(ii).
8. The SEC Staff 2003 guidance regarding MD&A provided Intel with food for thought as they undertook to redesign the entire Form 10-K filing. SEC Release No. 33-8350, "Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations," December 19, 2003, available at <https://www.sec.gov/rules/interp/33-8350.htm> ("While all required information must of course be disclosed, companies should consider using a 'layered' approach. Such an approach would present information in a manner that emphasizes, within the universe of material information that is disclosed, the information and analysis that is most important. This presentation would assist readers in identifying more readily the most important information. Using an overview or introduction is one example of a layered approach.>").
9. SEC Release No. 33-8350, "Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations," December 19, 2003, available at <https://www.sec.gov/rules/interp/33-8350.htm>. See, also, SEC Release No. 33-6711, "Concept Release on Management's Discussion and Analysis of Financial Condition and Operations," April 24, 1987 (52 Federal Register at 13717, April 24, 1987).
10. Due to the large number of graphics, the filed version of Intel's 2017 Form 10-K was comprised of 71 files; whereas, the 2016 Form 10-K included only 30 files. As a result of the size and number of files included, it was necessary to perform multiple test filings to ensure that all images would properly show up when uploaded to EDGAR.

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