Introduction

In 1968, Bob Noyce and Gordon Moore founded Intel. Shortly after, the new company created the first single-chip microprocessor, which launched an information revolution that has transformed virtually every aspect of our lives.

Like most entrepreneurs, Intel's founders had few resources when they started their company. For all practical purposes these resources were little more than phenomenal ideas, immense talent, and the courage to strike out on their own. Indeed, they faced significant challenges and risks.

Among other tasks, they had to convince prospective employees, suppliers, investors, and other stakeholders — those who have an interest in the company's success — that Intel's ideas and its strategy to implement them were financially attractive — that Intel could earn enough money to compensate them for the risks they were taking by investing in the new company.

When deciding whether to contribute resources, each stakeholder had to assess Intel's financial condition: What other resources did Intel have? What cash could it generate from these resources? What promises had Intel made to others? For example, did the company already have loans it would have to repay?

By the end of this chapter, you'll understand how Intel's balance sheets likely helped potential stakeholders assess its financial condition during its start-up year, and how they continue to help its current stakeholders do so today. You'll also learn why Intel's recent balance sheets can tell us a great deal more about the company's financial condition than its start-up balance sheets.

Finally, you'll learn that Intel was in great financial condition at the end of 2009— well positioned to finance the research and development of new ideas, implement strategies to bring these ideas to market, weather temporary downturns in demand for its products, and seize new opportunities.

The Intel story emphasizes how balance sheets can help insiders and outsiders assess companies' financial ability to execute their planned strategies, meet their financial obligations, and respond quickly to unforeseen opportunities and challenges.

We often think of balance sheets as pictures of a company's financial position on a specific date. However, they tend to be fuzzy pictures. In fact, they are more like x-rays, MRIs, or ultrasound medical images than clear photographs. For instance, like medical images, Intel's balance sheets only show us those aspects of the company's financial condition that we can measure reliably: a good deal of information about its financial condition is missing or measured with varying degrees of imprecision.

Also like medical images, balance sheets must be interpreted in their broader context— in this case the company's business (analogous to the patient's medical history). Still, just as medical images help doctors make informed judgments about patients' health, balance sheets, while imperfect, do help insiders and outsiders make informed assessments of companies' financial condition. Finally, we often describe a firm's financial condition in health terms: a highly successful company is strong, competitive, flexible, and adaptive. In contrast, the financial condition of a failing company is weak, sick, inflexible, or on life support.

Let's introduce balance-sheet terms and concepts, then apply these to Intel and other companies.

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