

INTEL CORPORATION
FINANCIAL STATEMENTS
Year ended December 31, 1970
with
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

ARTHUR YOUNG & COMPANY

COMMUNITY BANK BUILDING
SAN JOSE, CALIFORNIA 95113

The Board of Directors and Stockholders
Intel Corporation

We have examined the accompanying balance sheet of Intel Corporation at December 31, 1970 and the related statements of operations, stockholders' equity and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Intel Corporation at December 31, 1970 and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

January 14, 1971

ARTHUR YOUNG & COMPANY

INTEL CORPORATION
BALANCE SHEET
December 31, 1970

ASSETS

| | | |
|--|---------------|--------------------|
| Current assets: | | |
| Cash and cash equivalents | | \$2,826,202 |
| Accounts receivable, less allowance for doubtful accounts of \$44,423 | 999,558 | |
| Inventories, at lower of cost (first-in, first-out) or market | 239,782 | |
| Prepaid expenses | <u>24,332</u> | |
| Total current assets | | 4,089,874 |
| Plant and equipment, at cost (Note 2): | | |
| Land | \$ 844,979 | |
| Building under construction | 2,004,684 | |
| Leasehold improvements | 79,940 | |
| Machinery and equipment | <u>17,264</u> | |
| | 2,946,867 | |
| Less accumulated depreciation and amortization | <u>32,062</u> | <u>2,914,805</u> |
| | | <u>\$7,004,679</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|--------------------|--------------------|
| Current liabilities: | | |
| Accounts payable | \$ 477,339 | |
| Accrued liabilities (Note 3) | 622,648 | |
| Current portion of long-term debt (Note 2) | <u>188,838</u> | |
| Total current liabilities | | 1,288,825 |
| Long-term debt (Note 2) | | 377,678 |
| Commitments (Note 4) | | |
| Stockholders' equity (Note 5): | | |
| Common stock, no par value; 3,500,000 shares authorized, 2,217,154 shares issued and outstanding, at stated value | \$ 8,667,018 | |
| Accumulated deficit | <u>(3,328,842)</u> | <u>5,338,176</u> |
| | | <u>\$7,004,679</u> |

See accompanying notes.

INTEL CORPORATION
STATEMENT OF OPERATIONS
Year ended December 31, 1970

| | | |
|---|------------------|---------------------|
| Revenue: | | |
| Sales, net of provision for returns and allowances (Note 3) | | \$ 3,932,517 |
| Interest | | 241,358 |
| Royalties and other income | | <u>67,378</u> |
| | | 4,241,253 |
| Costs and expenses: | | |
| Cost of sales | \$2,766,262 | |
| Research and development | 1,297,450 | |
| Marketing, general and administrative | <u>1,628,167</u> | <u>5,691,879</u> |
| Loss before extraordinary item | | (1,450,626) |
| Extraordinary item - gain on sale of manufacturing know-how (Note 1) | | <u>480,711</u> |
| Loss for the year | | <u>\$ (969,915)</u> |
| Per share, based on weighted average number of shares outstanding: | | |
| Loss before extraordinary item | | \$(.69) |
| Extraordinary item | | <u>.23</u> |
| Loss for the year | | <u>\$(.46)</u> |

See accompanying notes.

INTEL CORPORATION
STATEMENT OF STOCKHOLDERS' EQUITY
Year ended December 31, 1970

| | Common Stock | | Accumulated Deficit |
|---|---------------------|--------------------|------------------------|
| | Number of Shares | Amount | |
| Balance at January 1, 1970 | 2,076,209 | \$7,050,030 | \$(2,358,927) |
| Sale of shares through private placement, net of related costs | 104,285 | 1,449,612 | - |
| Sales of shares through the employees' stock purchase plan and upon exercise of employee stock options (Note 5) | 36,660 | 167,376 | - |
| Loss for the year | - | - | (969,915) |
| Balance at December 31, 1970 | <u>2,217,154</u> | <u>\$8,667,018</u> | <u>\$(3,328,842)</u> |

See accompanying notes.

INTEL CORPORATION
STATEMENT OF SOURCE AND APPLICATION OF FUNDS
Year ended December 31, 1970

| | |
|---|--------------------|
| Source of funds: | |
| Sales of common stock: | |
| Private placement, net of related costs | \$1,449,612 |
| Employee stock option and stock purchase plans (Note 5) | <u>167,376</u> |
| | 1,616,988 |
| Increase in long-term debt (Note 2) | <u>377,678</u> |
| | 1,994,666 |
| Application of funds: | |
| Additions to property, plant and equipment (Note 2): | |
| Land | 844,979 |
| Building | 2,004,684 |
| Machinery and equipment and leasehold improvements | <u>12,412</u> |
| | 2,862,075 |
| Operations (a) | <u>949,878</u> |
| | <u>3,811,953</u> |
| Decrease in working capital | <u>\$1,817,287</u> |
| (a) Working capital applied to operations is computed as follows: | |
| Loss for the year | \$ 969,915 |
| Depreciation charged against income not involving working capital in the current period | <u>20,037</u> |
| | <u>\$ 949,878</u> |

See accompanying notes.

INTEL CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 1970

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NOTES TO FINANCIAL STATEMENTS
December 31, 1970

1. Extraordinary item

The Company has agreed to share with a Canadian manufacturer certain of its manufacturing process know-how and to provide related technical assistance and information through December 31, 1972.

The agreement provides for the Company to receive \$500,000 upon delivery of specified technical information (payment was received and recorded as income in 1970), \$1,000,000 subject to adjustment for a time incentive/penalty on attainment of specified product yields over a defined yield period, and royalties on future net sales, at the rate of 5% through December 31, 1971 and 2 1/2% through December 31, 1972.

As of December 31, 1970, the yield period had not been completed.

2. Plant and equipment

Substantially all capital equipment is being leased (see Note 4). Leasehold improvements are being amortized using the straight-line method over the life of the lease. Equipment is being depreciated over its estimated useful life of four years on a straight-line method.

Approximately 75% of the land purchased during the year is pledged under a first deed of trust to secure an 8 1/2% purchase money note. The note balance of \$566,516 is payable in annual installments of \$188,838.

3. Sales to distributors

Certain of the Company's sales are made to distributors under agreements allowing right of return of merchandise unsold by the distributors. Included in accrued liabilities is management's estimate (approximately \$250,000 at December 31, 1970) of reserves required to cover such potential liability.

4. Commitments

The Company leases all of its capital equipment for periods from 4 to 8 years. Under equipment leases entered into through December 31, 1970, the Company is obligated to pay rent in 1971 amounting to approximately \$340,000.

The Company's present plant and general offices are located in leased facilities. Under the lease, which expires in 1974, the Company is obligated to pay rent in 1971 amounting to \$50,400.

The Company is constructing a new plant and office facility. Approximately \$300,000 will be required to complete the project.

5. Common stock

a. Stock option plan

Officers and key employees have been granted options to purchase (within five years from the date of the grants at the rate of 25% per year) shares of the Company's authorized but unissued capital stock at the fair market value at the date of grant.

INTEL CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 1970

5. Common stock (continued)

a. Stock option plan (continued)

The following table summarizes data concerning employee stock options for the year ended December 31, 1970.

| | Unissued Options | Outstanding Options | | |
|---|---------------------|---------------------|--------------------|-----------------------|
| | | Number | Aggregate Value | Price Per Share |
| Balance at beginning of year | 22,400 | 136,285 | \$497,250 | \$2.86-\$14.00 |
| Options granted | (26,400) | 26,400 | 369,600 | \$14.00 |
| Options cancelled | 14,171 | 14,171 | 60,727 | \$2.86-\$14.00 |
| Options exercised | - | <u>32,551</u> | <u>109,823</u> | \$2.86-\$14.00 |
| Balance at end of year | <u>10,171</u> | <u>115,963</u> | <u>\$696,300</u> | |
| Options exercisable at December 31, 1970 | | <u>13,455</u> | <u>\$ 45,000</u> | <u>\$2.86-\$14.00</u> |

b. Employee stock purchase plan

In 1969, the shareholders approved an employee stock purchase plan whereby eligible employees may purchase shares of the Company's authorized unissued capital stock at the fair market value on the date of purchase and the Company reserved 43,750 shares for issuance under this plan. During 1970, 4,109 shares were purchased for \$57,553.

c. Other

An agreement, made by the Company in 1969, to issue shares of its stock as royalty payments in future years was cancelled during 1970.