INTEL CORPORATION

FINANCIAL STATEMENTS

Year ended December 31, 1969

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, 1969 and the related statements of operations and stockholders' equity 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, 1969 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Arthur Young & Company

January 16, 1970

INTEL CORPORATION

BALANCE SHEET

December 31, 1969

## ASSETS

| | | |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | | $4,648,011 |
| Accounts receivable, less allowance for doubtful accounts of $4,154 | | 236,905 |
| Inventories, at lower of cost (first-in, first-out) or market | | 191,414 |
| Prepaid expenses | | 19,672 |
| Total current assets | | 5,096,002 |
| Plant and equipment, at cost (Note 4): | | |
| Leasehold improvements | $ 71,226 | |
| Machinery and equipment | 13,566 | |
| | 84,792 | |
| Less accumulated depreciation and amortization | (12,025) | 72,767 |
| | | $5,168,769 |

## LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | | $ 307,327 |
| Accrued liabilities | | 170,339 |
| Total current liabilities | | 477,666 |
| Commitments (Note 5) | | - |
| Stockholders' equity (Note 2): | | |
| Common stock, no par value; 3,500,000 shares authorized, 2,076,209 shares issued and outstanding, at stated value | $7,050,030 | |
| Accumulated deficit | (2,358,927) | 4,691,103 |
| | | $5,168,769 |

See accompanying notes.

INTEL CORPORATION

STATEMENT OF OPERATIONS (NOTE 1)

Year ended December 31, 1969

| | |
|---|---|
| Revenue: | |
| Sales, net of provision for returns and allowances | $ 369,698 |
| Interest | 196,176 |
| | 565,874 |
| Costs and expenses: | |
| Cost of sales | 726,211 |
| Research and development | 1,293,434 |
| Marketing, general and administrative | 459,062 |
| | 2,478,707 |
| Loss for the year | $(1,912,833) |
| Loss per share (Note 3) | $(1.66) |

See accompanying notes.

INTEL CORPORATION

STATEMENT OF STOCKHOLDERS' EQUITY

Year ended December 31, 1969

| | Common Stock | | Accumulated Deficit |
|---|---|---|---|
| | Number of Shares | Amount | |
| Balance at January 1, 1969 | 500,000 | $ 500,000 | $ (446,094) |
| Stock split - 1.75 for 1 | 375,000 | - | - |
| Sales of shares through private placements, net of related costs | 285,714 | 3,937,726 | - |
| Shares issued upon conversion of 6% convertible subordinated debentures | 875,000 | 2,500,000 | - |
| Sale of shares through the employees' stock purchase plan and upon exercise of employee stock options (Note 2) | 36,995 | 102,304 | - |
| Shares issued in connection with the purchase of partnership assets (Note 2) | 3,500 | 10,000 | - |
| Loss for the year | - | - | (1,912,833) |
| Balance at December 31, 1969 | 2,076,209 | $7,050,030 | $(2,358,927) |

See accompanying notes.

INTEL CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 1969

1. Operations

Operations from inception, in 1968, through June 1969 consisted only of research and development of certain new semiconductor devices. Sales of these devices commenced in July 1969.

2. 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. At December 31, 1969, there were outstanding options as follows:

| Year of Grant | Number of Shares | Price Per Share | Options Exercisable at December 31, 1969 |
|---|---|---|---|
| 1968 | 96,560 | $2.86 | 11,904 |
| 1969 | 39,725 | $2.86 - $14.00 | - |
| | 136,285 | | 11,904 |

During 1969, options on a total of 16,315 shares were exercised at $2.86 per share. Options on 875 shares were cancelled during the year.

At December 31, 1969, there were 158,685 shares reserved for stock options, representing options granted but unexercised (136,285 shares - for a total exercise price of $466,592) and options available for granting (22,400 shares).

2. Common stock (continued)

b. Employee stock purchase plan

Effective January 1, 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. The Company reserved 43,750 shares for issuance under this plan and, through December 31, 1969, 21,246 shares were purchased for $60,464 of which 566 shares were repurchased from terminated employees for $4,785, as provided for in the plan.

c. Other

During 1969, 3,500 shares of capital stock were issued to an unrelated partnership in exchange for the partnership's materials, supplies and equipment relating to product research and development. The Company has agreed to issue to the former partners additional shares of common stock as royalty payments. These shares are to be issued annually, based upon the sales of specified products in each of the years 1969 through 1973. The market value of the shares to be issued is to be equal to 10% of the billings of the specified products except that the number of shares to be issued in each year cannot exceed 1% of the number of shares then outstanding. No shares were required to be issued under this agreement in 1969.

3. Loss per share

Loss per share has been computed based on the weighted average number of shares outstanding during the year. Shares issued upon conversion of the 6% convertible subordinated deben-

3. Loss per share (continued)

tures and upon exercise of stock options have been included from the date of issuances. If such issuances had taken place at the beginning of the year, the loss per share would have been ($1.05).

4. Plant and equipment

Substantially all capital equipment is being leased (see Note 5). 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.

5. Commitments

The Company leases all of its capital equipment for periods from 4 to 8 years. Under equipment leases entered into through December 31, 1969, the Company is obligated to pay rent in 1970 amounting to approximately $270,000.

Orders have been placed for additional leased equipment, to be received throughout 1970, which will require rental payments aggregating approximately $45,000 per year. Rent payments will begin at the time each piece of equipment is delivered.

The Company's plant and general offices are located in leased facilities. Under the lease, which expires in 1974, the Company is obligated to pay rent in 1970 amounting to $50,400.

The Company has an option to purchase for $750,000 approximately 25 acres of land in the vicinity of its current facilities.

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