INTEL CORPORATION

FINANCIAL STATEMENTS

Year ended December 31, 1970

with

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

ARTHUR YOUNG & COMPANY

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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

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		24,332
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	17,264	
	2,946,867	
Less accumulated depreciation and amortization	32,062	2,914,805
		$7,004,679
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable		$ 477,339
Accrued liabilities (Note 3)		622,648
Current portion of long-term debt (Note 2)		188,838
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	(3,328,842)	5,338,176
		$7,004,679

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		67,378
		4,241,253
Costs and expenses:		
Cost of sales	$2,766,262	
Research and development	1,297,450	
Marketing, general and administrative	1,628,167	5,691,879
Loss before extraordinary item		(1,450,626)
Extraordinary item - gain on sale of manufacturing know-how (Note 1)		480,711
Loss for the year		$ (969,915)
Per share, based on weighted average number of shares outstanding:		
Loss before extraordinary item		$(.69)
Extraordinary item		.23
Loss for the year		$(.46)

See accompanying notes.

INTEL CORPORATION

STATEMENT OF STOCKHOLDERS' EQUITY

Year ended December 31, 1970

	Common Stock		
	Number of Shares	Amount	Accumulated Deficit
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	2,217,154	$8,667,018	$(3,328,842)

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)		167,376
		1,616,988
Increase in long-term debt (Note 2)		377,678
		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		12,412
		2,862,075
Operations (a)		949,878
		3,811,953
Decrease in working capital		$1,817,287
(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		20,037
		$ 949,878

See accompanying notes.

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.

INTEL CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 1970

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.

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	-	32,551	109,823	$2.86-$14.00
Balance at end of year	10,171	115,963	$696,300	
Options exerciseable at December 31, 1970		13,455	$ 45,000	$2.86-$14.00

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.