intel corporation
financial statements
1973

INTEL CORPORATION
CONSOLIDATED STATEMENT OF INCOME
Years ended December 31, 1973 and 1972

	1973	1972
	(Thousands—Except Per Share Amounts)	
Revenues:		
Sales	$65,593	$22,971
Interest and other income	577	446
	66,170	23,417
Costs and expenses:		
Cost of sales	35,109	12,425
Research and development	4,565	3,442
Marketing, general and administrative	7,347	3,486
	47,021	19,353
Income before taxes on income and extraordinary item	19,149	4,064
Taxes on income (Note 2)	9,935	2,084
Income before extraordinary item	9,214	1,980
Extraordinary item—		
Income tax benefit of net operating loss carryforward (Note 2)	—	1,104
Net income	$ 9,214	$ 3,084
Earnings per capital and capital equivalent share (Note 1):		
Before extraordinary item	$2.12	$.47
Extraordinary item	—	.27
Net income	$2.12	$.74

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED BALANCE SHEET
December 31, 1973 and 1972

ASSETS

	1973	1972
	(Thousands)	
Current assets:		
Cash, including certificates of deposit of $4,000,000 in 1973 and commercial paper of $6,300,000 in 1972	$ 6,246	$ 6,313
Accounts receivable, less allowance for doubtful accounts of $762,000 in 1973 and $147,000 in 1972	17,445	6,715
Inventories:		
Materials	3,918	1,233
Work-in-process	5,277	1,216
Finished goods	1,195	338
	10,390	2,787
Prepaid income tax (Note 2)	2,996	477
Other current assets	229	80
Total current assets	37,306	16,372
Investment	246	196
Property, plant and equipment:		
Land and land improvements	1,349	1,095
Buildings and leasehold improvements	5,093	3,379
Machinery and equipment	6,419	1,189
Construction in progress	2,156	243
	15,017	5,906
Less accumulated depreciation and amortization	2,002	530
Net property, plant and equipment	13,015	5,376
	$50,567	$21,944

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 4,764	$ 1,547
Deferred income on shipments to distributors	2,711	733
Accrued liabilities	3,146	896
Taxes payable based on income (Note 2)	10,165	1,243
Total current liabilities	20,786	4,419
Deferred taxes on income (Note 2)	1,893	129
Commitments (Note 4)		
Shareholders' equity (Note 3):		
Capital stock, without par value, 10,000,000 shares authorized; shares issued and outstanding: 4,137,000 at December 31, 1973 and 4,057,000 at December 31, 1972; at stated value	18,054	16,776
Retained earnings	9,834	620
Total shareholders' equity	27,888	17,396
	$50,567	$21,944

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Years ended December 31, 1973 and 1972

	Capital Stock		Retained Earnings (Deficit)	Total
	Number of Shares	Amount		
		(Thousands)		
Balance at January 1, 1972	3,900	$15,871	$(2,415)	$13,456
Sales of shares through employee stock participation plan and upon exercise of employee stock options (Note 3)	97	684	—	684
Pooled company capital transactions and loss for short period	60	188	(49)	139
Capital transactions of investee accounted for on equity method	—	33	—	33
Net income	—	—	3,084	3,084
Balance at December 31, 1972	4,057	16,776	620	17,396
Sales of shares through employee stock participation plan and upon exercise of employee stock options (Note 3)	80	1,278	—	1,278
Net income	—	—	9,214	9,214
Balance at December 31, 1973	4,137	$18,054	$ 9,834	$27,888

See accompanying notes.

INTEL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years ended December 31, 1973 and 1972

	1973	1972
	(Thousands)	
Sources of working capital:		
Operations:		
Income before extraordinary item	$ 9,214	$1,980
Charges against income not involving the use of working capital:		
Depreciation	1,474	351
Deferred income taxes	1,764	129
Charge in lieu of taxes offset by extraordinary item not affecting working capital	—	1,104
Other	(50)	(12)
	12,402	3,552
Sales of capital stock (Note 3)	1,278	872
	13,680	4,424
Applications of working capital:		
Additions to property, plant and equipment	9,113	2,104
Other	—	86
	9,113	2,190
Increase in working capital	$ 4,567	$2,234
Changes in components of working capital:		
Current assets increase (decrease):		
Cash	$ (67)	$ (949)
Accounts receivable	10,730	4,028
Inventories	7,603	1,863
Prepaid income tax and other current assets	2,668	328
	20,934	5,270
Current liabilities increase:		
Accounts payable	3,217	786
Deferred income on shipments to distributors	1,978	437
Accrued liabilities	2,250	600
Taxes payable based on income	8,922	1,213
	16,367	3,036
Increase in working capital	$ 4,567	$2,234

See accompanying notes.

INTEL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1973 and 1972

1. Accounting policies

Basis of presentation

The consolidated financial statements include the accounts of all of Intel's subsidiaries after elimination of intercompany transactions. In 1972 Intel issued 104,992 shares of its capital stock for all of the outstanding stock of Microma, Inc., in a business combination accounted for as a pooling of interests.

Recapitalization

In April, 1973, Intel increased its authorized shares to 10,000,000 and declared a three-for-two stock split. All capital share numbers and earnings per capital and capital equivalent share for 1972 have been restated to reflect the stock split.

Deferred income on shipments to distributors

Certain of Intel's sales are made to distributors under agreements allowing right of return and price protection on merchandise unsold by the distributors. Because of the rapid technological obsolescence in the industry, Intel defers recognition of such sales until merchandise is sold by the distributors.

Warranty

Intel provides currently an amount which, in the opinion of management, is sufficient to cover the estimated cost to repair or replace product expected to be returned under the various warranty provisions in effect.

Royalties

Intel has entered into various cross-licensing agreements. In addition, Intel expects, from time to time, to utilize products and processes of others and may be required to obtain additional licenses and pay royalties for such utilization. Accordingly, Intel provides currently a reserve (based upon a percentage of sales) which, in the opinion of management, is sufficient to cover Intel's liability under all such possible cross-license agreements.

Research and development expenditures

Research and development costs and preoperating expenses of new operations are charged to income as incurred.

Inventories

Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates average cost) for work-in-process and finished goods and on a first-in, first-out basis for materials. Market is based upon estimated realizable value reduced by normal gross margin.

Investment

The investment represents a minority interest in the common stock of an investee company accounted for under the equity method of accounting. Intel has an option to acquire a 51% interest in the investee company (whose earnings through December 31, 1973 have not been significant) in exchange for Intel capital stock (approximately 25,000 shares).

Note 1—(Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is calculated principally by use of the straight-line method over the estimated useful lives of the assets for financial statement purposes (accelerated methods for tax purposes). Maintenance and repairs are charged to income as incurred.

Foreign currency translation

Current assets and current liabilities are translated at the exchange rate in effect at the close of the period. Property, plant and equipment (approximately $1,360,000 at December 31, 1973) are translated at the exchange rates in effect at the dates these assets were acquired. Revenue and expense accounts, which are not material in amount, are translated at a weighted average of exchange rates which were in effect during the year, except for depreciation which is translated at the rates of exchange in effect when the respective assets were acquired. Exchange adjustments, which to date have not been material, are charged or credited to income.

Earnings per capital and capital equivalent share

Earnings per share are computed using the weighted average number of capital and capital equivalent shares outstanding after giving retroactive effect to the pooling-of-interests in 1972 and the three-for-two stock split in 1973. Capital equivalent shares consist of shares issuable under employee stock option plans (Note 3) computed on the treasury-stock method.

2. Income taxes

The provision for taxes on income is made up of the following components:

	1973	1972
	(Thousands)	
Current:		
Federal	$ 9,240	$1,115
Less investment tax credit on the flow-through method	300	40
	8,940	1,075
State	1,750	253
	10,690	1,328
Charge equivalent to benefit of net operating loss carryforward	—	1,104
Deferred:		
Federal	(480)	(348)
State	(275)	—
	(755)	(348)
	$ 9,935	$2,084

Deferred Federal tax results from timing differences in the recognition of certain revenue and expense items for tax and financial statement purposes. Timing differences relate primarily to depreciation, franchise tax accrual, deferred income on shipments to distributors, estimated warranty and undistributed income of Domestic International Sales Corporations.

Taxes payable based on income was reduced by $270,000 in 1973 and $56,000 in 1972 as a result of tax deductions obtained upon the exercise of non-qualified stock options and disqualifying dispositions of stock acquired under the Company's qualified plans.

3. Employee Stock Option and Stock Purchase Plans

a. *Qualified and Non-Qualified Stock Option Plans*

Under these plans, officers and key employees have been granted options to purchase shares of Intel's authorized but unissued capital stock at the fair value at date of grant. Unless otherwise provided, options become exercisable at the rate of 25% per year commencing one to two years from the date of grant. Options for 1,012,500 shares may be granted under the plans as amended. The Qualified Stock Options expire five years from the date of grant. The Non-Qualified Stock Options expire ten years from the date of grant. Income tax benefits realized by Intel as a result of transactions in these plans have been credited to capital stock (Note 2).

Additional information with respect to these plans is as follows:

	Options Available for Grant	Outstanding Options		
		Number	Aggregate Value	Price Per Share
Balance at December 31, 1971	115,861	324,718	$2,663,000	$ 1.91-$10.50
Additional shares reserved for granting under the plan (non-qualified)	450,000	—	—	—
Options granted	(89,250)	89,250	1,989,000	$10.50-$30.00
Options exercised	—	(85,785)	(489,000)	$ 1.91-$ 9.33
Options cancelled	9,957	(9,957)	(90,000)	$ 1.91-$10.50
Balance at December 31, 1972	486,568	318,226	4,073,000	$ 1.91-$30.00
Options granted	(183,050)	183,050	6,420,000	$27.33-$53.00
Options exercised	—	(61,056)	(524,000)	$ 1.91-$25.33
Options cancelled	33,666	(33,666)	(715,000)	$ 3.33-$31.25
Balance at December 31, 1973	337,184	406,554	$9,254,000	$ 1.91-$53.00
Options exercisable at December 31:				
1973		49,163	$ 548,000	$ 1.91-$30.00
1972		23,462	$ 97,000	$ 1.91-$10.50

b. *Employee Stock Participation Plan*

Under this plan substantially all employees are entitled to purchase stock at 85% of the fair market value of the stock at certain specified dates. The number of shares reserved for issuance under this plan was increased to 75,000 in 1973. Employees purchased 18,885 shares in 1973 (11,439 in 1972) under this plan.

c. *Other options*

There were outstanding at December 31, 1973 options to purchase 14,055 capital shares for an aggregate of $43,000. These employee stock options, none of which were exercisable at December 31, 1973, were assumed in connection with a business combination in 1972 (Note 1).

4. Commitments

Intel leases a substantial portion of its capital equipment for periods from four to eight years, which periods approximate the economic useful life of the equipment. Intel also leases certain of its manufacturing facilities under leases which expire at various dates through 1978. Rent expense related to these leases was $1,236,000 in 1973 and $825,000 in 1972.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4—(Continued)

The minimum rental commitment under all noncancellable leases with an initial or remaining term of one year or more is as follows: 1974—$1,010,000; 1975—$838,000; 1976—$635,000; 1977—$420,000; 1978—$228,000; and 1979—$60,000.

Intel has under construction a manufacturing facility which will require funds of approximately $1,200,000 to complete in 1974.

Intel has available until August 1, 1974 an unsecured line of credit with a commercial bank which permits Intel to borrow up to $6,000,000 at the bank's prime interest rate. No money has been borrowed under this line to date.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Intel Corporation

We have examined the accompanying consolidated balance sheet of Intel Corporation at December 31, 1973 and the related consolidated statements of income, shareholders' equity and changes in financial position 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. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Intel Corporation at December 31, 1973 and 1972 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

San Jose, California
January 14, 1974

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Transfer Agent and Registrar

Wells Fargo Bank,
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