

signetics

1973 ANNUAL REPORT

HIGHLIGHTS

signetics

	1973	1972
Net sales	\$98,274,000	\$48,428,000
Income before extraordinary credit	5,953,000	921,000
Extraordinary credit	4,170,000	620,000
Net income	10,123,000	1,541,000
Average number of common and common equivalent shares	4,432,000	3,832,000
Number of employees (at year end)	9,557	5,194
Per share statistics:		
Income before extraordinary credit	\$1.34	\$.24
Extraordinary credit	.94	.16
Net income	\$2.28	\$.40

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1973 ANNUAL REPORT

To Our Shareholders:

We take pleasure in presenting to you this first public annual report of Signetics Corporation. The managerial practices that have brought our company to its present stature will continue to guide our growth.

We are engaged exclusively in the manufacture and sale of a broad line of integrated circuits. Our principal goal is to focus our total energy on achieving worldwide excellence in this growth business.

During the past year strong global demand for integrated circuits, combined with multi-market acceptance of our products, enabled us to double our sales volume over 1972. Per share income before extraordinary credit improved from \$0.24 in 1972 to \$1.34 in 1973.

A high level of research and development activity, together with accelerated product and process development, produced a record number of new circuits. These were directed, not only to our traditional base markets in electronic data processing, but also to the growing consumer and automotive markets.

We continued to penetrate the increasingly important international market. As a direct result, our sales abroad expanded more rapidly than domestic sales.

During 1973, \$21,500,000 was spent on new plant and equipment. This more than doubled our production capacity. Capital investment in 1974 is estimated to exceed the 1973 level.

Part of the capital for this expansion was raised in our first public stock issue in November, 1973, which produced \$20,600,000. Corning Glass Works now owns 70.2 percent of Signetics' stock.

So far as we are able to predict the next 12 months, we do not expect energy or material shortages to dampen our plans. We are well positioned to benefit from the growth of our industry expected in 1974 and the future.



Charles C. Harwood

Allen W. Dawson

Allen W. Dawson

Allen W. Dawson
Chairman of the Board

Charles C. Harwood

Charles C. Harwood
President

OPERATIONS

SIGNETICS—AN INTRODUCTION

The company was founded in 1961, when the first integrated circuits were being produced singly by hand. Today, the annual usage of integrated circuits is in the hundreds of millions. From being a pioneer company in the industry, Signetics has maintained its position in the top rank of integrated circuit manufacturers as to size, experience, and market acceptance.

At the end of 1973, Signetics employed 9,557 persons, an increase of 84% over 1972.

Signetics has manufacturing facilities in Korea, Portugal, Germany and Scotland, in addition to U.S. plants in California and Utah. The company maintains sales offices, representatives and distributors throughout the United States and in 20 foreign countries.

THE MARKETS

Currently the largest customers for integrated circuits are the manufacturers of equipment for data processing and control applications. "IC's," as they are commonly referred to, are the electronic internal elements that store information, perform calculations, and produce either answers to problems or control signals to other equipment. A fast-growing additional market is in the application of integrated circuits to consumer, automotive and industrial equipment that is not necessarily computer oriented. The total world sales of integrated circuits in 1973 increased an estimated 66% over 1972 sales.

The sales potential will continue to grow, as existing markets use more integrated circuits. Further sales opportunities will come with the introduction of new IC's that replace electro-mechanical, mechanical, and older electronic devices.

THE PRODUCTS

Signetics initially concentrated on integrated circuits for aerospace/military use, the original large market. Through the years, the company has expanded its target markets so that sales are now 85% broadline products to industrial and commercial customers. This reflects the growth pattern of the world's usage.

Signetics is mainly a supplier of industry standard products. However, a significant number of unique products, and the technology to produce them, were first developed at Signetics.

Technically, the products may be viewed as falling into four groups, each of which covers a range of major customer requirements.

Logic Circuits

TTL (Transistor-Transistor Logic)	Circuits that form the decision portion of a computer, and perform calculations. Used primarily in electronic data processing equipment, communications, industrial and consumer applications.
Schottky TTL (High Speed TTL)	
ECL (Emitter Coupled Logic)	
MOS (Metal Oxide Semiconductor)	

Memory Circuits

MOS (Metal Oxide Semiconductor)	Circuits that store information. Used in computers, calculators, electronic cash registers, information display terminals and many consumer applications.
Bipolar	

Analog Circuits

Bipolar Linear
DMOS (Transistors)

Circuits used to provide human and mechanical interaction with computers; and many general noncomputer purposes, such as instruments, televisions, radios, high fidelity stereos and timers.

Circuits for the Government

Bipolar

Selected circuits that have been specially processed and inspected to perform with high reliability under unusual environmental conditions.

LOGIC CIRCUITS

The differing needs of computer designers require a selection of logic circuit families to meet their requirements.

The most widely used logic circuit family is TTL, of which Signetics is one of the world's largest suppliers. To meet the requirement for faster TTL logic, the company developed a new fabrication process for the manufacture of Schottky TTL. These devices operate at four times the speed of conventional TTL circuitry. Schottky products have gained popularity in a growing variety of computer systems.

For data processing systems that require extremely fast logic operations, ECL is the dominant integrated circuit technology. Signetics introduced its ECL 10,000 product line in 1973. The company is now a principal supplier of this new standard family of super speed logic.

Initial effort is underway to provide MOS logic for applications where speed is not essential and price is important.

MEMORY CIRCUITS

Probably the most important and largest growth opportunity in IC's is in the new memory market. Integrated circuit memories are replacing the older technology of magnetic core in the main memory portion of large computers.

In addition, the features of the integrated circuits, such as small size, high speed, low cost and high reliability have opened new applications for computer designers to disperse memory throughout computer systems, thus improving computer performance.

For large economical memories, the company has developed a number of MOS processes. These N-channel, P-channel and ion implantation processes are used to produce advanced silicon gate memory circuits.

Where higher speeds are required, the appropriate technology is bipolar. Signetics serves these needs with a broad range of bipolar memories, including random access, read-only, and programmable read-only devices. Utilizing Schottky TTL and ECL techniques, these products are among the best performing memories available in the world.

ANALOG CIRCUITS

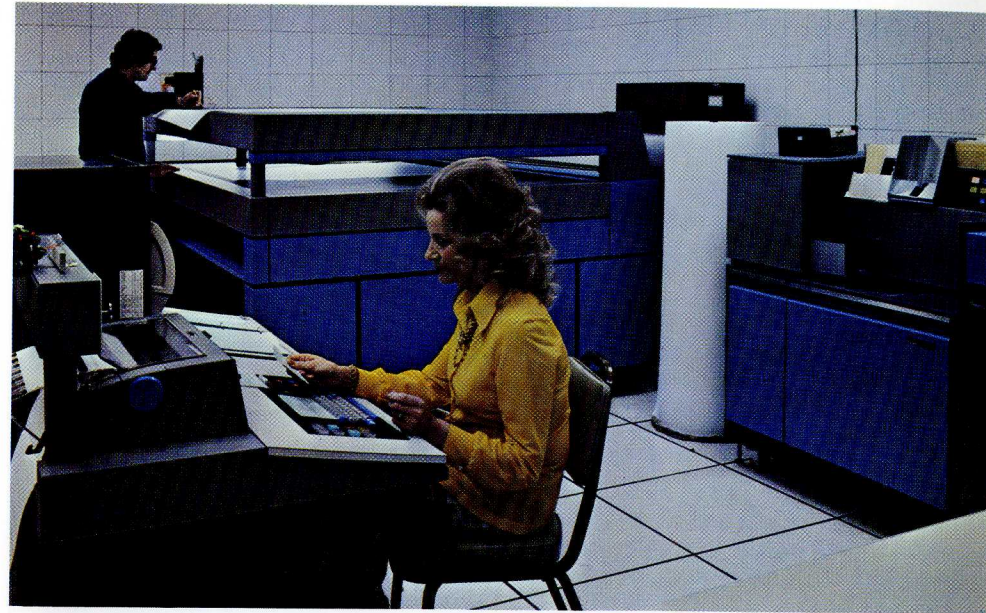
Analog integrated circuits continue to open new markets for the company.

Among the newest of these circuits are unique electronic timers invented by Signetics. These offer performance and economy previously

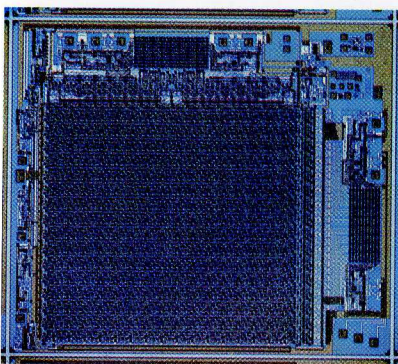
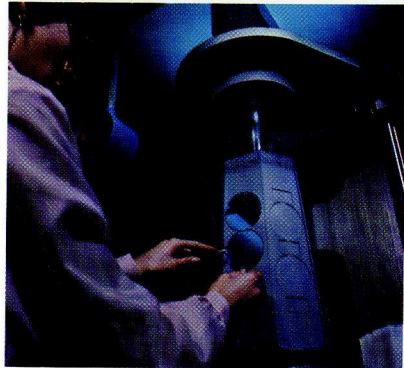


The Company's computer-aided design facility helps engineers create complex TTL integrated circuits for many new electronic systems.

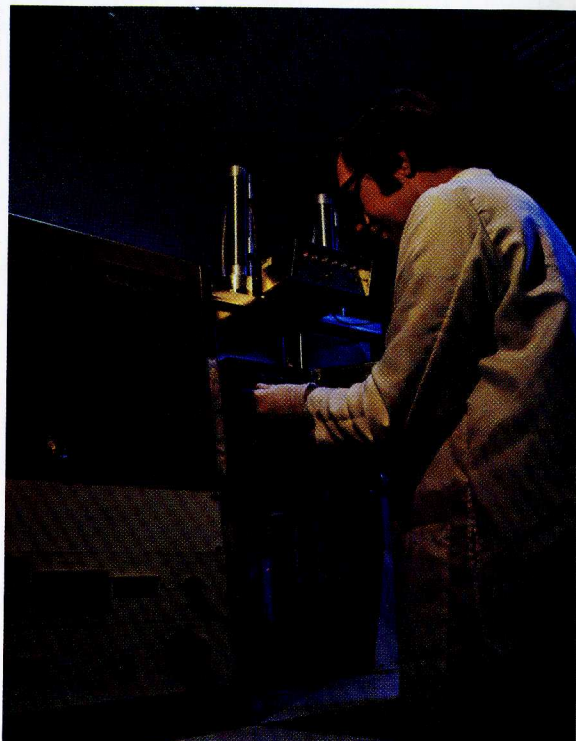
A computer-controlled drafting system is used to draw complex MOS memory circuits for large business computers.



Cost-saving three-inch silicon wafers are used to fabricate bipolar memories. These memories store data in large computers used for production and process control.



A complex Bipolar 1024-bit random access memory used in ultra high speed computers.



Precision low level doping is made possible through ion implantation. This allows large scale manufacture of MOS random access memory circuits for data storage in electronic cash registers and scientific calculators.

unattainable with electro-mechanical and mechanical timers. The range of potential applications for these basic building blocks is very broad, and market acceptance has been swift and widespread. Signetics now supplies the largest volume of timing circuits.

The monolithic phase-locked loop circuit was invented, developed and first sold by Signetics. During 1973 the product concept was expanded into a complete line with versions for the consumer and commercial communications markets. The company is the major supplier of monolithic phase-locked loops, used to replace older industry tuned circuitry.

Signetics also collaborated with Dolby Laboratories, Ltd., of London in the successful integration of the Dolby Type B noise reduction system. The circuit permits recorders to reproduce sound without annoying tape hiss.

Analog product sales to the automotive industry have grown dramatically. Noteworthy during 1973 was the successful development and volume production of seatbelt ignition interlock circuits.

Signetics' scientists developed DMOS technology which is used to produce a new line of high performance field effect transistors enabling performance unattainable by conventional bipolar and field effect devices. These new products are starting to achieve customer acceptance in markets such as television tuners and mobile radios.

PRODUCTS FOR THE GOVERNMENT

Signetics is engaged in the production of integrated circuits for the National Aeronautics and Space Administration, the military services and government contractors. Combined, they account for approximately 15 percent of the company's sales. Signetics holds government certification, which is granted only after an in-depth study of product processing. The company's circuits are being used in the Apollo, Mariner and Pioneer programs as well as for aircraft guidance, communications and radar landing systems.

RESEARCH AND DEVELOPMENT

Research and Development emphasizes the invention of new circuit designs and process technology for the company's long term growth. Phase-locked loops, timers and DMOS products originated in Signetics' R&D laboratories. Current activities focus on new product concepts and techniques for achieving lower power consumption, faster speeds and higher circuit density.

MANUFACTURING

Production output levels were achieved through increased productivity as well as expansion. Signetics increased its facilities from 300,000 to 500,000 square feet worldwide in 1973.

During the year the majority of the company's wafer fabrication equipment was changed in order to allow conversion from 2" to 3" diameter wafers. This conversion enables the company to double the number of circuits contained on each wafer, resulting in increased capacity and higher productivity.

Initial product is now being shipped from a new assembly line that is employing a mechanized technique that eliminates certain manual operations and will increase productivity.

In addition to increasing capacity and productivity, Signetics introduced new molding compounds and processing techniques that enabled the company to improve the reliability of its plastic encapsulated integrated circuits, thus providing a better product for its customers.

DOMESTIC SALES

During the past year, Signetics' sales operations emphasized service to the customer, and broadening of its business base. With demand exceeding supply, major new scheduling and service programs were initiated to meet the surge in customer delivery requirements.

During 1973 the company expanded the direct sales force and the field applications engineering group. The applications group helps customers understand the optimum use of Signetics circuits.

The stocking distributor program was significantly bolstered with the additional franchise of two major distributor organizations in 1973. This establishes Signetics' integrated circuits as among the most widely stocked and distributed throughout the United States. Distributors in combination with our own sales force, provide over 300 salesmen in the field on Signetics' behalf.

This strong program resulted in adding more than 1,000 new Signetics customer firms during the year.

INTERNATIONAL

The past year was also a time of rapid growth for the company's international operations, with sales growth 146 percent over 1972.

In Europe, the sales and application engineering staff were expanded in the company's major offices in London, Paris and Munich.

The company's plants in Scotland, Portugal and Korea were greatly expanded and a new plant is now under construction in Noerdlingen, Germany, to replace existing leased facilities.

In Japan, the integrated circuit market grew rapidly. Signetics increased its penetration of this important market with major sales to manufacturers of consumer products.

Signetics' program to service customers in foreign markets will continue to be emphasized along with domestic growth.

THE FUTURE

The thrust of Signetics' strategy is to look ahead and determine the needs of firms worldwide that use electronic circuitry. This market-oriented approach is the basis of direction to Signetics' scientists, designers and production people. The efforts of these individuals have brought the company to its present position. By continuing to work in this manner, they will help ensure Signetics' growth and enhance its position as one of the largest worldwide suppliers of integrated circuits.

SIGNETICS CORPORATION

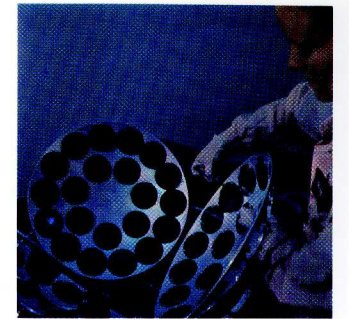
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

Years Ending December 30, 1973 and December 31, 1972

	1973	1972
Net sales	\$98,274,000	\$48,428,000
Cost of sales	66,660,000	34,308,000
	31,614,000	14,120,000
Selling, general and administrative expenses	12,507,000	8,317,000
Product and process research and development expenses (Note 6)	6,413,000	3,503,000
	18,920,000	11,820,000
Income from operations	12,694,000	2,300,000
Interest and other income	660,000	372,000
Interest expense	1,420,000	1,038,000
Income before income taxes	11,934,000	1,634,000
Provision for income taxes (Note 7)	5,981,000	713,000
Income before extraordinary credit	5,953,000	921,000
Reduction of income taxes from operating loss carryforwards (Note 7)	4,170,000	620,000
Net income	\$10,123,000	\$ 1,541,000
Income per share of common stock (Note 5):		
Before extraordinary credit	\$1.34	\$.24
Extraordinary credit	.94	.16
Net income	\$2.28	\$.40

See statement of accounting policies and notes to consolidated financial statements on page 14.



Three-inch wafers are being prepared for metal evaporation. Once fully completed and packaged, these analog circuits will be used in consumer high-fidelity systems to reduce tape noise and improve sound reproduction.

SIGNETICS CORPORATION
CONSOLIDATED BALANCE SHEET
 December 30, 1973 and December 31, 1972

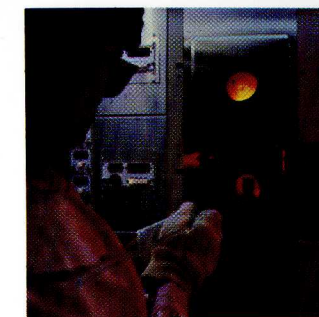
ASSETS

	1973	1972
Current assets:		
Cash	\$ 2,133,000	\$ 504,000
Short-term certificates of deposit	7,449,000	
Accounts and notes receivable, less allowance for doubtful accounts of \$377,000 and \$425,000	17,973,000	9,418,000
Inventories:		
Finished goods	2,339,000	1,970,000
Work-in-process	13,606,000	8,554,000
Raw materials and supplies	4,546,000	2,255,000
Prepaid expenses and other current assets	578,000	656,000
Total current assets	<u>48,624,000</u>	<u>23,357,000</u>
Plant and equipment, at cost (Note 3):		
Land	1,835,000	1,055,000
Buildings and improvements	12,682,000	8,949,000
Machinery and equipment	29,358,000	17,613,000
Construction in progress	4,853,000	1,329,000
	<u>48,728,000</u>	<u>28,946,000</u>
Accumulated depreciation	(16,188,000)	(12,418,000)
	<u>32,540,000</u>	<u>16,528,000</u>
Other assets and deferred charges	523,000	196,000
	<u>\$81,687,000</u>	<u>\$40,081,000</u>

See statement of accounting policies and notes to consolidated financial statements on page 14.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1973	1972
Current liabilities:		
Short-term bank loans—foreign	\$ 630,000	\$ 919,000
Current portion of long-term debt	493,000	447,000
Accounts payable	10,673,000	4,915,000
Accrued payroll and employee benefits	2,399,000	1,066,000
Other accrued liabilities	2,698,000	1,726,000
Income taxes payable (Note 7)	1,928,000	93,000
Accounts and notes payable to Corning Glass Works and its affiliates (Note 4)	1,042,000	859,000
Total current liabilities	<u>19,863,000</u>	<u>10,025,000</u>
Long-term debt (Note 3):		
Corning Glass Works and its affiliates	10,560,000	10,690,000
Others	2,851,000	1,751,000
	<u>13,411,000</u>	<u>12,441,000</u>
Stockholders' equity (Notes 3 and 9):		
Common stock, stated value \$.05 per share; authorized—10,000,000 shares; issued and outstanding—5,473,002 shares and 4,146,796 shares	274,000	207,000
Capital in excess of stated value	47,942,000	27,334,000
Retained earnings (deficit)	197,000	(9,926,000)
	<u>48,413,000</u>	<u>17,615,000</u>
Commitments and contingent liabilities (Note 10)	<u>\$81,687,000</u>	<u>\$40,081,000</u>



Here one of many well-controlled diffusion steps in 1,000°C furnaces is being performed on ECL circuits. The heart of new super-speed scientific computers is created with this product.

SIGNETICS CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ending December 30, 1973 and December 31, 1972

	1973	1972
Working capital provided:		
Operations:		
Income before extraordinary credit	\$ 5,953,000	\$ 921,000
Depreciation	5,308,000	3,689,000
Reduction of income taxes from operating loss carryforwards	4,170,000	620,000
Working capital provided by operations	15,431,000	5,230,000
Increase in long-term debt:		
Corning Glass Works		10,300,000
Others	1,461,000	29,000
Sale of common stock:		
Public offering	20,562,000	
Corning Glass Works		5,125,000
Stock options exercised	113,000	46,000
Net carrying value of plant and equipment retired	202,000	223,000
	37,769,000	20,953,000
Working capital used:		
Additions to plant and equipment	21,522,000	5,048,000
Reduction of long-term debt:		
Corning Glass Works	130,000	7,271,000
Others	361,000	372,000
Increase in other assets and deferred charges	327,000	50,000
	22,340,000	12,741,000
Increase in working capital	\$15,429,000	\$ 8,212,000

See statement of accounting policies and notes to consolidated financial statements on page 14.

SIGNETICS CORPORATION
CHANGES IN COMPONENTS OF WORKING CAPITAL

Years Ending December 30, 1973 and December 31, 1972

	1973	1972
Increase (decrease) in current assets:		
Cash and short-term certificates of deposit	\$ 9,078,000	\$ 61,000
Accounts and notes receivable	8,555,000	3,142,000
Inventories	7,712,000	4,809,000
Prepaid expenses and other current assets	(78,000)	154,000
	25,267,000	8,166,000
(Increase) decrease in current liabilities:		
Short-term bank loans—foreign	289,000	(435,000)
Current portion of long-term debt	(46,000)	4,468,000
Accounts payable	(5,758,000)	(2,607,000)
Accrued payroll and employee benefits	(1,333,000)	(522,000)
Other accrued liabilities	(972,000)	94,000
Income taxes payable	(1,835,000)	(93,000)
Accounts and notes payable to Corning Glass Works and its affiliates	(183,000)	(859,000)
	(9,838,000)	46,000
Increase in working capital	\$15,429,000	\$ 8,212,000

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Capital in Excess of Stated Value	Retained Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount			
Balance, January 2, 1972	3,696,676	\$185,000	\$22,185,000	\$(11,467,000)	\$10,903,000
Sale of common stock:					
Corning Glass Works	445,652	22,000	5,103,000		5,125,000
Exercise of stock options	4,468		46,000		46,000
Net income for the year				1,541,000	1,541,000
Balance, December 31, 1972	4,146,796	207,000	27,334,000	(9,926,000)	17,615,000
Sale of common stock:					
Public investors, less related expenses of \$174,000	1,300,000	65,000	20,497,000		20,562,000
Exercise of stock options	26,206	2,000	111,000		113,000
Net income for the year				10,123,000	10,123,000
Balance, December 30, 1973	5,473,002	\$274,000	\$47,942,000	\$ 197,000	\$48,413,000

See statement of accounting policies and notes to consolidated financial statements on page 14.



These MOS 8192-bit read-only memories, still in wafer form, are being automatically tested. Upon completion they will be used in computerized reservation equipment, such as airline ticket counter terminals.

SIGNETICS CORPORATION
STATEMENT OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned. All material intercompany transactions have been eliminated.

Translation of Foreign Currencies

Assets and liabilities of foreign subsidiaries and branches have been translated into United States dollars at period-end exchange rates, except that property and equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition. Foreign operating results have been translated generally at the average rates of exchange prevailing during the period. Gains and losses resulting from exchange rate fluctuations are generally included in the results of operations. Translation gains and losses resulting from long-term debt, net of other translation gains and losses, are deferred and amortized over the repayment period of such debt.

Inventories

Inventories are valued at the lower of standard cost (which approximates current actual cost) or market.

Plant and Equipment

Buildings and improvements are depreciated on the straight-line method over estimated useful lives, principally 40 years and 5 to 10 years, respectively. Machinery and equipment are depreciated principally on the sum-of-the-years digits method over estimated useful lives of 3 to 10 years.

Product and Process Research and Development Expenses

All product and process research and development costs are expensed as incurred.

Investment Tax Credits

The company accounts for investment tax credits under the deferral method which recognizes the benefits as reductions of income taxes over the productive lives of the assets generating such credits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Ownership:

At December 30, 1973 approximately 70% of the company's outstanding common stock was owned by Corning Glass Works ("Corning"). In November 1973, this ownership level was approximately 92% but was reduced as the result of the sale by the company of 1,300,000 shares of common stock to public investors.

Note 2—Foreign Operations:

Net assets held by foreign subsidiaries and branches, principally in Europe and Korea, aggregated approximately \$13,600,000 at December 30, 1973 and \$7,000,000 at December 31, 1972; undistributed earnings of foreign subsidiaries at such dates amounted to approximately \$2,100,000 and \$200,000, respectively.

The effect of foreign currency exchange adjustments was not material.

Note 3—Long-Term Debt:

	December 30, 1973	December 31, 1972
Payable to Corning and its affiliates:		
7½% promissory note payable in semi-annual instalments of \$500,000 beginning December 31, 1974 with a final instalment of \$2,000,000 payable December 31, 1982	\$10,000,000	\$10,000,000
10½% loan payable in instalments to 1976	260,000	390,000
Loan payable in instalments from 1975 to 1979, with interest at 2% over the yield rate on Eurodollar deposits	300,000	300,000
	10,560,000	10,690,000
Payable to others:		
8¼% promissory notes payable in equal quarterly instalments to 1993, secured by land	1,006,000	
8% and 9½% loans payable in Pounds Sterling in varying instalments to 1990	583,000	702,000
3½% loan payable in Deutsche Marks in instalments to 1985, secured by land	806,000	706,000
10% and 12% loans payable in Korean Won in instalments to 1979	210,000	271,000
6%-10% notes payable in varying instalments to 1990, secured by buildings	246,000	72,000
	2,851,000	1,751,000
	\$13,411,000	\$12,441,000

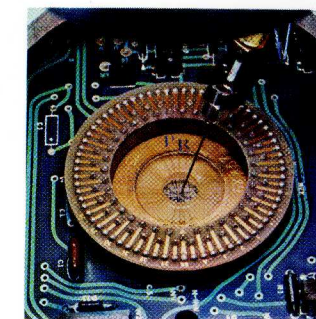
At December 30, 1973 long-term debt due after one year was payable as follows: 1975—\$1,521,000; 1976—\$1,523,000; 1977—\$1,316,000; 1978—\$1,246,000; thereafter—\$7,805,000.

Certain of the loans and notes are secured by liens and mortgages on plant and equipment with an approximate book value of \$2,100,000.

The agreement relating to the 7½% note payable to Corning requires that the company maintains, on a consolidated basis, a current ratio of not less than 1.25 to 1 through December 31, 1973 and 1.4 to 1 thereafter. The agreement also provides that the company will not, without the consent of Corning, (1) incur any long-term indebtedness superior to the payment of the indebtedness evidenced by the note; (2) permit, on a consolidated basis, long-term indebtedness to exceed 45% of the total of such indebtedness plus stockholders' equity, nor (3) purchase or redeem any of its outstanding stock or pay any dividends, except for cash dividends paid out of retained earnings; provided, however, that no such dividends may be declared or paid in amounts exceeding in any twelve-month period net income of the preceding twelve-month period.

Note 4—Revolving Credit Agreement with Corning:

The company has a revolving credit agreement with Corning expiring January 31, 1975 whereunder it may borrow up to \$12,000,000. The loans are repayable on demand and bear interest at approximately 1¼% over the prime rate. The maximum borrowing under this agreement amounted to \$9,150,000 in 1973, all of which was repaid prior to December 30, 1973.



Accurate testing of timer circuits is critical to ensure quality. These integrated circuit timers will replace electro-mechanical devices now used in home appliances and traffic control equipment.

Note 5—Income Per Share of Common Stock:

Income per share has been computed using the average number of common shares outstanding during the respective years (4,352,091 in 1973 and 3,771,347 in 1972) plus common equivalent shares (79,873 in 1973 and 60,199 in 1972) resulting from stock options outstanding.

Note 6—Product and Process Research and Development:

Under an agreement with Corning dated December 16, 1966, as amended, Corning has paid the company for costs incurred in product and process research and development with respect to certain integrated circuit projects designated by Corning. A new agreement dated January 1, 1973 continues such arrangement for the years 1973 and 1974 and provides for maximum annual contract payments by Corning of \$1,001,000 per year. The payments received from Corning, which have been offset against product and process research and development expense in the consolidated statement of income, amounted to \$1,001,000 in 1973 and \$1,413,000 in 1972.

Note 7—Income Taxes:

The company joined in the filing of consolidated federal income tax returns with Corning through November 7, 1973, after which date it was no longer eligible to be included. Federal income taxes have been computed as if the company had not been included in Corning's consolidated return. The company and Corning have entered into an agreement whereby, through November 7, 1973, any taxes payable to or refundable from the Internal Revenue Service are instead payable to or refundable from Corning. The agreement also provides that, after such date, Corning will reimburse the company for any taxes paid to the Internal Revenue Service which become payable as a result of having been included in Corning's consolidated returns. A ruling has been received from the Internal Revenue Service that such reimbursement constitutes a non-taxable contribution of capital to the company.

On a separate return basis, at December 30, 1973 the company had operating loss carryforwards of approximately \$900,000 available to reduce future years' taxable income, all of which expires December 31, 1976. Additionally, at December 30, 1973 the company had investment tax credit carryovers of approximately \$900,000 available to reduce future years' income taxes otherwise payable; such carryovers expire in varying amounts from 1975 to 1980.

The Internal Revenue Service has completed examinations of the reported income and loss for years through 1970 and has proposed adjustments which, if sustained, would have the principal effect of extending the expiration date of part of the operating loss carryforward an additional year.

The provision for income taxes consists of the following:

	December 30, 1973	December 31, 1972
Charge equivalent to reduction in federal and foreign income taxes from operating loss carryforwards	\$4,170,000	\$620,000
Foreign	1,231,000	18,000
State	580,000	75,000
	\$5,981,000	\$713,000

No provision is made for income taxes relating to potential future distributions of accumulated earnings from the foreign subsidiaries or a Domestic Inter-

national Sales Corporation since it is the company's present intention to utilize substantially all of the undistributed earnings in its foreign operations and qualified export activities.

Note 8—Pension and Additional Compensation Plans:

Substantially all domestic employees of the company are covered under a pension plan of Corning. Provisions for pension expense, which are based on actuarial estimates of current service costs and interest on unfunded past service cost, amounted to \$450,000 in 1973 and \$149,000 in 1972. It is the company's policy to fund current service pension costs accrued. The unfunded past service cost at December 30, 1973 was approximately \$621,000.

The company has an Additional Compensation Plan, pursuant to which certain key employees, including officers, receive additional compensation based upon the company's consolidated income before income taxes. Provisions for additional compensation for the years 1973 and 1972 amounted to approximately \$644,000 and \$326,000, respectively.

Note 9—Capital Stock and Stock Option Plans:

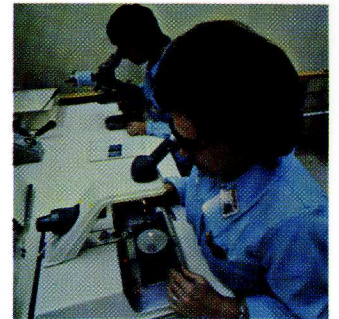
In 1973 the company increased its authorized common stock to 10,000,000 shares. It also created a class of 2,500,000 shares of preferred stock without par value, none of which has been issued.

At December 30, 1973, 346,574 shares of common stock were reserved for issuance to officers and key employees of the company and its subsidiaries under qualified and non-qualified stock option plans. Qualified options are granted at the fair market value at date of grant and expire five years from grant date. Non-qualified options, which expire six years from date of grant, are granted at prices determined by an Option Committee composed of members of the Board of Directors and may be less than the fair market value at date of grant; at December 30, 1973 no options have been granted at less than fair market value. Options generally become exercisable to the extent of 40% beginning 18 months (two years for non-qualified options) after the grant date and an additional 20% annually thereafter.

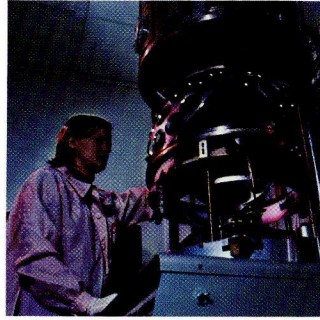
Transactions relating to options during 1973 and 1972 are shown below:

	Options Outstanding		Options Available for Grant	
	Qualified	Non-Qualified	Qualified	Non-Qualified
	1973	1972	1973	1972
Balance, beginning of year	118,600	56,416	73,010	79,770
Add (deduct):				
Options granted	72,100	75,750		
Options exercised (\$4.125 to \$11.00 per share)	(4,480)	(4,468)	(21,726)	
Options cancelled	(13,800)	(9,098)	(1,812)	(6,760)
Options authorized				88,930
Balance, end of year	172,420	118,600	49,472	73,010
Options exercisable at year end	14,440	17,970	6,672	-

At December 30, 1973 the options outstanding were at prices of \$4.125 to \$38.00 (an average of \$9.22) per share.



New automobile seatbelt ignition interlock safety system circuits are being separated and sorted before assembly.



Programmable read-only memories (PROM) being coated with a thin film of aluminum. Each PROM can be programmed in seconds by the user to implement custom instructions in a mini computer.

Prior to November 1973 there was no market and no quoted market price for the company's common stock. Through October 1973, the fair market value at the dates the options were granted represents the value as determined by the Board of Directors based on periodic independent appraisals.

Note 10—Commitments and Contingent Liabilities:

The company leases various facilities and equipment under non-cancelable leases. Aggregate minimum rental commitments under these leases were \$1,291,000 (facilities \$594,000 and equipment \$697,000), payable as follows: 1974—\$425,000; 1975—\$361,000; 1976—\$245,000; 1977—\$148,000; 1978—\$49,000; 1979 to 1983—\$63,000.

Total rental expense, excluding payments of real estate taxes, insurance and other expenses, amounted to \$1,095,000 in 1973 and \$541,000 in 1972.

The company is a party to various alleged patent infringements which, in the opinion of management and patent counsel, will not have a material adverse effect on its financial position at December 30, 1973.

REPORT OF INDEPENDENT ACCOUNTANTS



121 PARK CENTER PLAZA, SAN JOSE, CALIFORNIA 95113

January 21, 1974

To the Board of Directors and Stockholders of Signetics Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and of changes in financial position present fairly the financial position of Signetics Corporation (a majority owned subsidiary of Corning Glass Works) and its subsidiaries at December 30, 1973 and December 31, 1972, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were 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.

Price Waterhouse & Co.

**SIGNETICS CORPORATION
FIVE YEAR REVIEW**

*In thousands except
per share amounts and employment data*

	1973	1972	1971	1970	1969
Net sales	\$98,274	\$48,428	\$31,840	\$33,726	\$41,357
Cost of sales	66,660	34,308	27,996	32,194	28,928
	31,614	14,120	3,844	1,532	12,429
Selling, general and administrative expenses	12,507	8,317	6,271	7,156	6,452
Product and process research and development expenses	6,413	3,503	2,396	4,531	3,846
Income from operations	12,694	2,300	(4,823)	(10,155)	2,131
Interest and other income	660	372	92	93	162
Interest expense	1,420	1,038	903	1,001	382
Income before income taxes	11,934	1,634	(5,634)	(11,063)	1,911
Provision for income taxes	5,981	713	85	(2,664)	1,087
Income before extraordinary credit	5,953	921	(5,719)	(8,399)	824
Reduction of income taxes from operating loss carryforwards	4,170	620			
Net income	\$10,123	\$ 1,541	\$(5,719)	\$(8,399)	\$ 824
Income per share of common stock:					
Before extraordinary credit	\$1.34	\$.24	\$(1.55)	\$(2.28)	\$.23
Extraordinary credit	.94	.16			
Net income	\$2.28	\$.40	\$(1.55)	\$(2.28)	\$.23
Average number of common and common equivalent shares	4,432	3,832	3,697	3,683	3,530
<i>Financial information</i>					
Working capital	\$28,761	\$13,332	\$ 5,120	\$10,785	\$12,799
Depreciation	5,308	3,689	3,620	3,623	2,961
Additions to plant and equipment	21,522	5,048	2,256	3,225	9,731
Plant and equipment, at cost (net)	32,540	16,528	15,392	17,488	18,416
Total assets	81,687	40,081	30,729	32,788	39,547
Long-term debt	13,411	12,441	9,754	11,677	9,255
Stockholders' equity	48,413	17,615	10,904	16,620	21,573
Number of employees (at year end)	9,557	5,194	3,698	2,322	4,052

Board of Directors

Allen W. Dawson
*Chairman of the Board of Directors
Executive Vice President, Corning Glass Works*

Charles C. Harwood
President and Chief Executive Officer

W. H. Armistead
Vice Chairman, Corning Glass Works

Robert W. Foster
Vice President

F. Warren Hellman
President, Lehman Brothers, Inc.

Amory Houghton, Jr.
Chairman of the Board, Corning Glass Works

William C. Ughetta
*Vice President, Secretary and Counsel,
Corning Glass Works*

Charles B. Wakeman
*Director of Corporate Development, Corning
Glass Works*

Accountants, Transfer Agents and Registrars

Independent Certified Public Accountants
Price Waterhouse & Co.

Transfer Agents and Registrars
Bank of America NT & SA
First National City Bank

Officers

Charles C. Harwood
President and Chief Executive Officer

Jerry R. Crowley
Vice President—Sales

Timothy M. daSilva
Vice President—Manufacturing Operations

Robert W. Foster
Vice President—Finance and Administration

Alan V. Gregory
Vice President—Analog Products Division

John E. Halter
Vice President—Products Group

David Kleitman
Vice President—Research and Development

Donald T. Aanestad
Treasurer and Secretary

Robert J. Crever
Controller

Signetix International Corporation

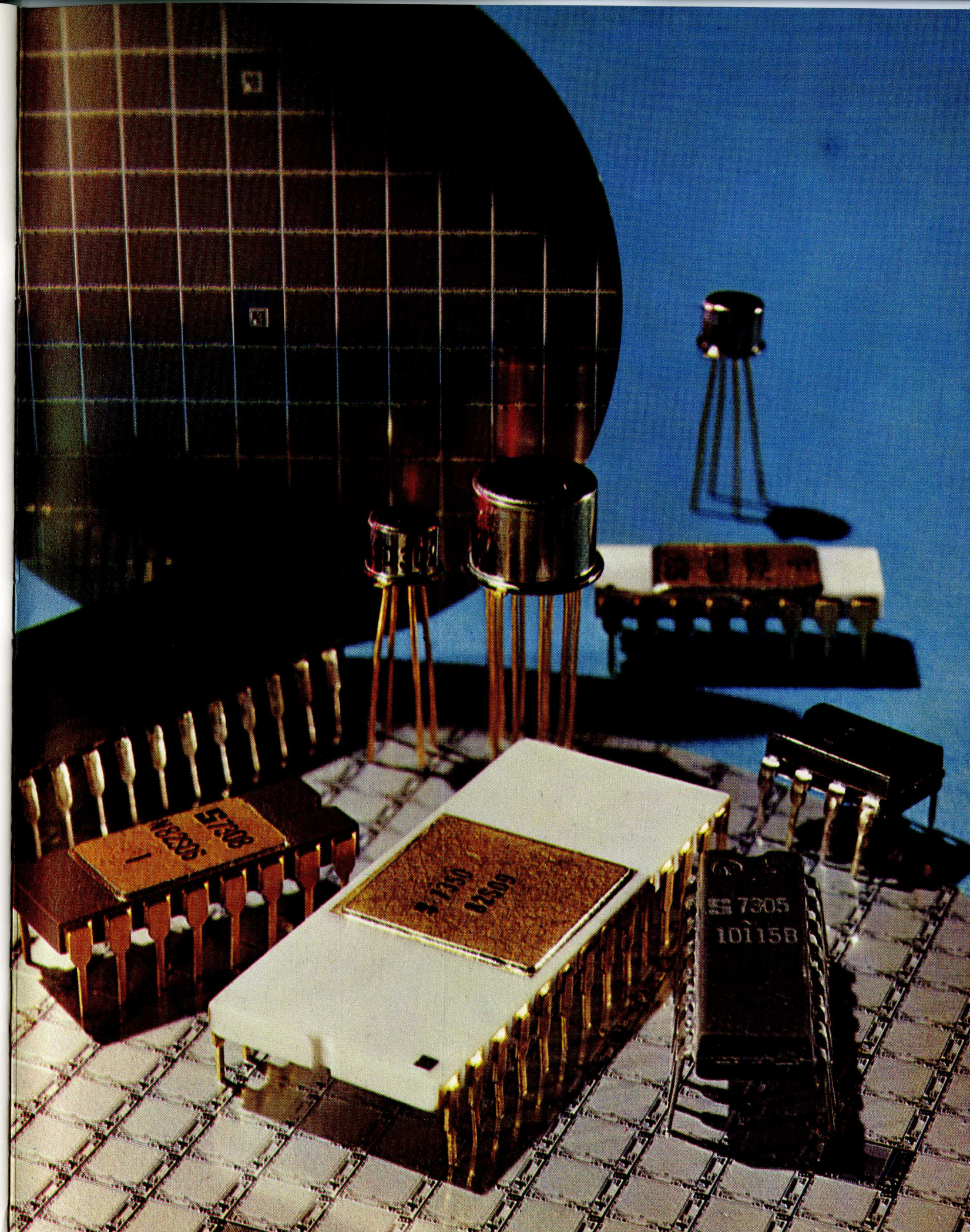
Donald F. Liddie
President

Locations

Headquarters
Sunnyvale, California

Worldwide Manufacturing Plants
Sunnyvale, California
Orem, Utah
Noerdlingen, West Germany
Seoul, Korea
Setubal, Portugal
Linlithgow, Scotland

Electronic equipment ranging from computers to consumer products use a variety of Signetix integrated circuits.



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TELEPHONE: (408) 739-7700 • TWX: (910) 339-9283 • A Subsidiary of CORNING GLASS WORKS