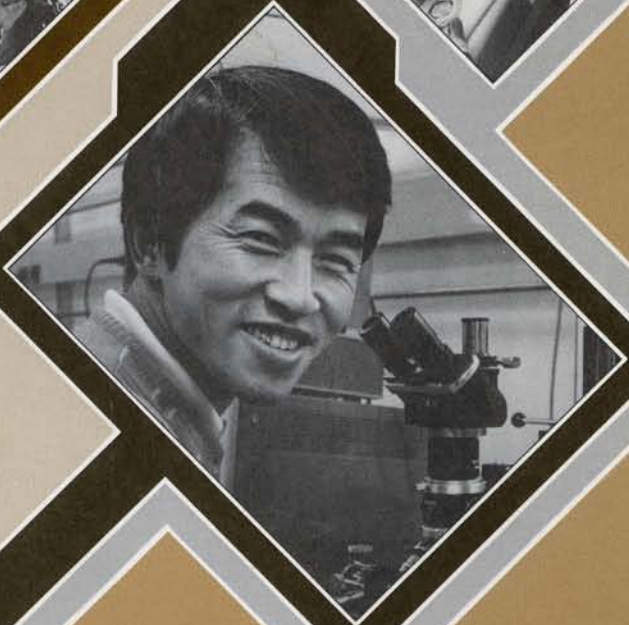
Fairchild Annual Report to Employees 1976



Wilf Corrigan
President and Chief
Executive Officer

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April, 1977

The Fairchild Annual Report to Employees 1976 is published for employees of Fairchild Camera and Instrument Corporation.

Employees may obtain additional copies of this report and copies of the Annual Report to Shareholders for the year ended Jan. 2, 1977 by writing to the Corporate Communications Department, M.S. 20-2260, Mountain View.

FAIRCHILD
CAMERA AND INSTRUMENT
CORPORATION

An Equal Opportunity Employer

Dear Fellow Employees:

I am pleased to be able to comment to you in this first Annual Report to Employees. This publication, which supplements our Annual Report to Shareholders, recognizes each of us has a special interest in our company—we are concerned with its accomplishments, of which we can be proud, and its problems, on which we need to concentrate our efforts.

At Fairchild, 1976 brought some of both. Your efforts last year produced record sales—an impressive 52 percent gain over fiscal 1975. The company introduced hundreds of advanced new products—many, the result of years of research and development. Our position in our major markets grew stronger, particularly in microprocessors and LSI. This past February, Fairchild listed for trading on the London Stock Exchange, a move which reflects the interest in our company internationally.

Our earnings growth did not match our sales growth, increasing by a modest 20 percent. Our major focus for 1977 will be on increasing margins. I am planning on 1977 being the year where we bring together the right balance of sales growth and earnings.

The LSI (large scale integration) and microprocessor markets offer a particular potential for dramatic future growth. Recognizing this, we formed a separate group last year specifically to address this market. Our Microsystems Division at San Jose recently began operations in a large new addition built to help them better serve a very promising market.

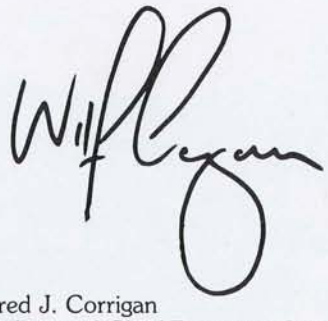
Consumer end products—an area Fairchild was not involved in two years ago—expanded last year, although its growth rate was reduced by the economic slowdown in the second half. The popular liquid crystal display (LCD) timepieces were added to our watch line, and we successfully developed and brought to market the Fairchild Video Entertainment System, a programmable home television game based on our F8™ microprocessor. The game was approved by the FCC in October and limited shipments took place during the holiday season, with excellent customer response.

More than 30 percent of our sales last year came from foreign countries. Our international business has grown rapidly in the last five years, especially in Europe. Last December, our wholly-owned financial subsidiary, F.C.I. International Finance N.V., generated additional capital through the sale of $20 million of 5 & 3/4 percent convertible subordinated debentures in the Eurobond market. This reflects the interest in our company in Europe and the increased emphasis we are putting into market growth in that area.

Internally-developed products are the lifeblood of our company. Despite last year's economic lag, we continued to invest significantly in new product development and expanded production facilities. Spending for research, development and engineering amounted to approximately $48 million, with expenditures for new buildings and equipment at $36 million. These investments will enable Fairchild to take advantage of the market opportunities we see ahead.

Prospects for the coming year—our fiftieth anniversary as a company—are encouraging. Our financial position is strong, and we have an organization of talented people. A corporation is more than good products and new buildings—it is people—men and women who staff our labs, manufacturing areas and offices developing, making and selling our products.

Your contribution to that effort is important. I want to personally thank you for your contribution to last year's record sales level, and I seek your cooperation for an even better 1977.



Wilfred J. Corrigan
President and Chief Executive Officer

Our 1976 Revenue Dollars

In the Annual Report to Shareholders, use of our company's income is shown in a series of financial tables. Here, we've taken the main categories from the Annual Report's Consolidated Statement of Income and expanded them to show their structure.

How We Earned Them:

We received $443,221,000 in sales from our customers + $7,157,000 in royalties and other income = $450,378,000 in total revenue for 1976 (100%).

How We Used Them:

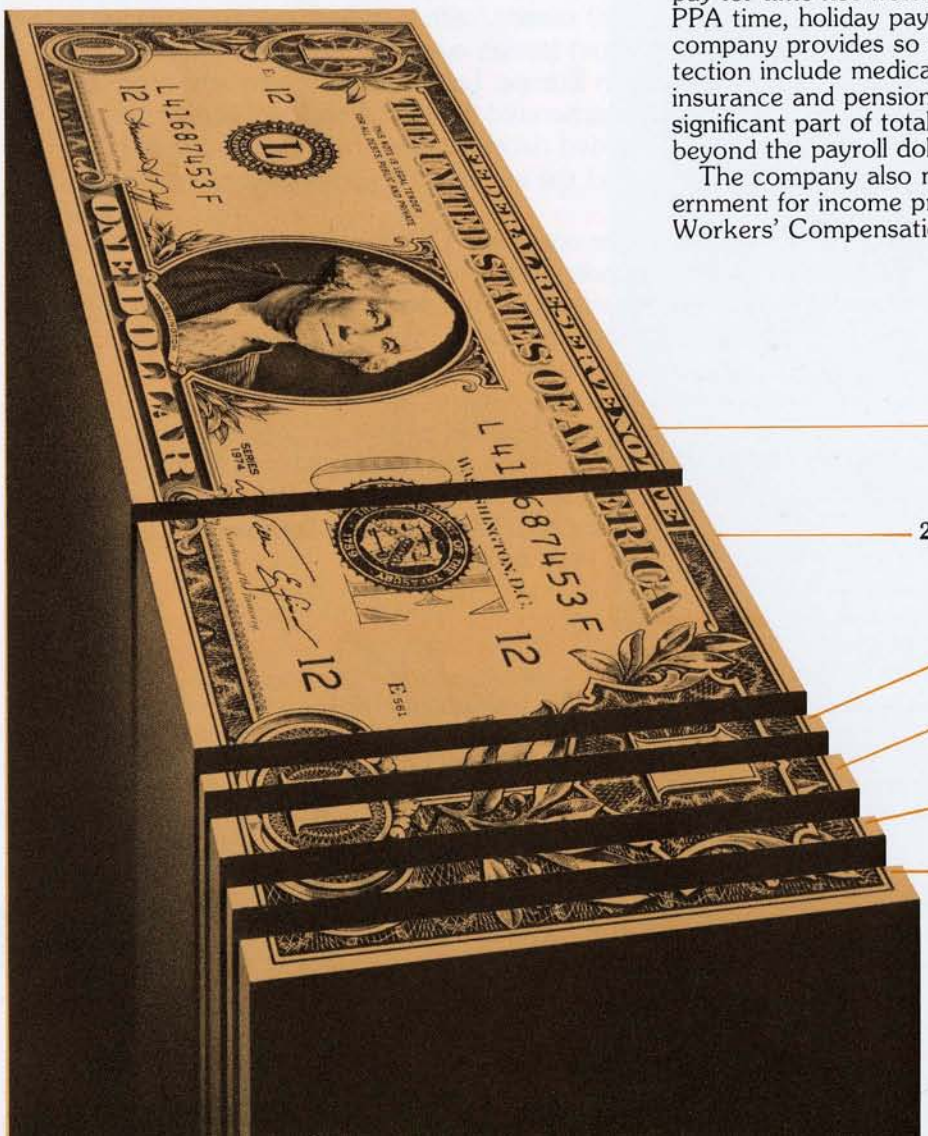
73¢ Cost of Sales ($327,381,000)

To make our products and get them into the hands of our customers requires nearly three-quarters of each revenue dollar. Buying raw materials and supplies, paying utility bills and insurance premiums on our property, packaging our products and delivering them to our customers all cost proportionately more last year than they did before.

Cost of sales also includes compensation and benefits for the majority of our employees - everyone except administrative and sales personnel, whose compensation is included in administrative and selling expenses.

In addition to meeting the payroll, Fairchild must pay for time not worked, in the form of sick leave, PPA time, holiday pay and vacations. Benefits the company provides so employees have income protection include medical and dental insurance, life insurance and pension plan payments. These are a significant part of total employee compensation beyond the payroll dollar.

The company also makes payments to the government for income protection programs including Workers' Compensation, Social Security and



73¢—Cost of Sales ($327,381,000)

21¢—Administrative and Selling Expenses ($94,427,000)

1¢—Interest Expenses ($5,504,000)

2¢—Provision for Income Taxes ($10,610,000)

1¢—Payments to Shareholders ($4,265,000)

2¢—Profit ($8,191,000)

unemployment insurance. Fairchild paid $9,410,000 in payroll taxes for all employees including administrative and sales personnel last year, which included matching each employee's Social Security contribution.

Other forms of tax reported under this heading include those which are part of everyone's cost of living. Property tax on real estate and personal property, for instance, amounted to $4,281,000 last year. Miscellaneous taxes such as license fees and sales tax cost an additional $916,000.

Buildings and equipment we buy eventually become obsolete. In the electronics business, this can happen very quickly as new technology develops. To reflect the limited life of these assets, we make a charge against earnings commonly called depreciation and amortization expense. This figure is computed by determining how long a new asset can be used, then writing off a portion of its cost over each year of its estimated useful life. Fairchild's depreciation expense was $16,663,000.

It is to our advantage, of course, to maintain our present facilities and equipment in the best possible shape for as long as we can. The company paid $10,770,000 for maintenance and repairs during 1976.

To maintain our leadership position in the numerous industries we serve, Fairchild invested $47,000,000 last year in research, development and engineering activities to improve existing products and develop new ones.

Administrative and Selling Expenses ($94,427,000)

Fairchild wouldn't sell many products if our customers didn't know they were available, so the company must invest a substantial amount of money each year to inform people about our products and convince them to buy from us. Advertising Fairchild products through numerous media cost $10,796,000 last year, approximately 2¢ of this 21¢ per revenue dollar.

Also paid from this one-fifth of the revenue dollar was compensation for administrative and sales personnel companywide, and the costs of supporting essential corporate services such as protecting Fairchild patents against unauthorized use, identifying and training promotable employees and providing information to existing and potential investors.

Interest Expense ($5,504,000)

Operating funds for a company come from profits it has left after paying its expenses, plus money invested by shareholders. Most companies find it necessary occasionally to supplement these two sources with money borrowed from banks and other sources. When this happens, it must pay interest, just as you do on your home mortgage or car loan. Last year, Fairchild's interest expense included payments on loans financing plant expansion and interest payments to debenture-holders who invested in our company.

Provision for Income Taxes ($10,610,000)

Taxes are a fact of life for corporations just as they are for individuals. U. S. companies are taxed by our federal government at a stiff 48% of their taxable income. These taxes, of course, pay for schools, roads and many services we have come to expect from government, which few of us would want to be without. Fairchild's federal, foreign and state income tax last year amounted to $10.6 million or $2.49 for every dollar paid in dividends to shareholders. Our total tax expense for 1976, including income, payroll, property and miscellaneous taxes, was slightly more than $25 million.

Payments to Shareholders ($4,265,000)

Just as Fairchild pays interest to banks for borrowing money, it must pay our shareholders dividends in return for their investment in our company. Last year, our net income was $12,456,000. Of this amount, $4,265,000 went to our shareholders. They each received 80¢ for each share of stock they own. These payments are made from funds remaining after the company pays taxes throughout the world.

Profit ($8,191,000)

Without profit, there wouldn't be any jobs. Profit can be thought of as the cost of staying in business—Fairchild must reinvest this money to build and expand plants, develop new products and remain competitive—in short, to grow. This growth provides more jobs as the company expands.

Surveys have shown that many people assume corporate profits run as high as 35 or 40 percent—a figure many times the norm. After all expenses, taxes and shareholder payments were taken out last year, Fairchild had slightly more than $8,000,000 to reinvest in the business—2¢ from every revenue dollar.

1976 Highlights

January 2 Introduction of the Timeband™ low-priced digital watch line

January 7 Construction on a polysilicon plant in Chandler, Arizona begun as a joint venture with Applied Materials, Inc.

January 16 European semiconductor operations decentralized to improve customer service and marketing coverage

March 24 F8 microprocessor kit for design and evaluation announced by Microsystems Division

May 25 Xincom III semiconductor test system unveiled

June 7 I^3L™ 4K dynamic RAM brought to market by Bipolar Memory & ECL Products Division

June 11 Semiconductor technology agreement with Hungarian firm announced

June 14 Television game, LCD watches introduced at the Consumer Electronics Show, Chicago

August 6 MOS/CCD Division announced it will be an alternate source for the industry's fastest 4K MOS dynamic memory, the Mostek 4027

September 14 Sentry VII advanced semiconductor test system introduced by Systems Technology Division

September 17 LSI Group formed under Vice President Dave Marriott. International Division to be headed by Vice President John Duffy

September 23 Space and Defense Systems Division CCD camera among IR-100 winners

September 29 $100 million bank credit agreement announced

October 20 Federal Communications Commission approved Video Entertainment Systems for sale

October 28 Fairchild announced technology exchange agreement with Motorola; will produce 6800 microprocessor and 8000-bit EROM

November 8 Construction begun on new Consumer Products headquarters at Santa Clara, Calif.

November 9 European $20 million convertible debenture offering announced

December 13 Initial occupancy of new 265,000 square-foot LSI plant in San Jose, Calif.

December 14 Federal Systems Group received Department of Defense Cogswell Award

The Sentry VII computer-controlled semiconductor test system, introduced in September, provides reliable and efficient testing of microprocessors, high-density memories and other circuits.

The Video Entertainment System, first shown at the June Consumer Electronics Show, uses replaceable cartridges and incorporates Fairchild's F8 microprocessor.

The F8 kit furnishes systems designers with a fully-assembled working microprocessor.

The MV-201 CCD camera received an award from *Industrial Research* magazine as one of the most significant new technical products for 1976.

Components Group

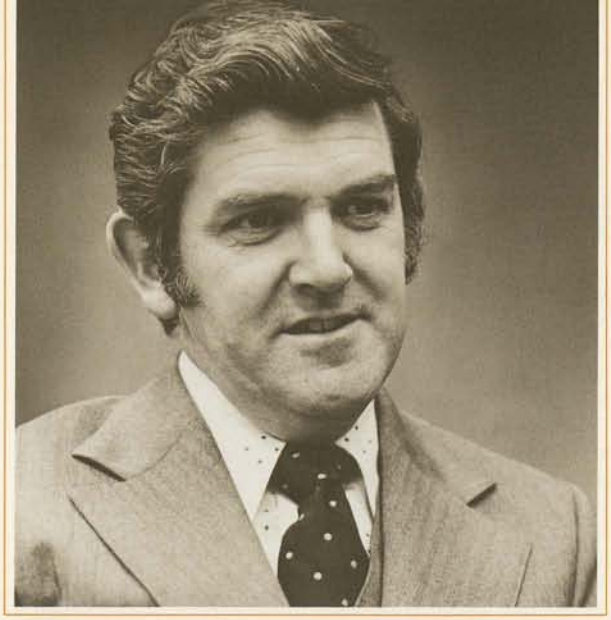
I am pleased to report that Components Group sales growth exceeded that of the industry last year. The four product divisions and Manufacturing Services all cooperated in meeting the Group's goals of sound inventory management and greater cost reductions.

Analog Products Division made great progress in the consumer electronics area during 1976. Linear integrated circuits for the television and audio equipment industries were introduced, and LIC continued to supply components to citizens band radio manufacturers in high volume.

We saw major growth in Europe, where Fairchild is the largest U.S. supplier of PAL (phase-alternating line) television circuits, the primary broadcast circuit used outside the United States. Continuing emphasis in the military area also contributed greatly to Linear's success.

Producing solid-state ignition systems for major car makers continued to be the primary activity of the Automotive/Hybrid Products Division. In 1976, we decided to sell our line of add-on (consumer) ignition systems. That line was purchased by Mallory Electric Co., a division of W. R. Grace, last December. We are now supplying Mallory with components for the add-on system. We will continue to serve as a components supplier to the OEM market.

This move reflects the continuing evaluation we make of our product lines. I believe periodic reviews are necessary to insure all products pull their own weight and do not use resources that could be more effectively applied somewhere else. This action has put the Automotive Division in a much better position to serve their primary market—the major automobile manufacturers.



George Wells–Vice President and General Manager, Components Group

The Digital Products Division experienced lower profits than expected as a result of pricing pressure on the commodity lines. Renewed emphasis in the military market segment, together with many new product introductions in CMOS and low power Schottky TTL, has enabled us to offset the margin squeeze brought on by the general economic lull that occurred in the second half of the year.

While we can do little to control economic conditions, we are concentrating on cost reductions through product redesign and more efficient production methods. The reliability of our CMOS parts and the speed of our low power Schottky circuits are unsurpassed in the industry. Through our cost reduction actions, we plan to be in a better position to take full advantage of our product superiority by mid-year.

Successful cost reduction programs were responsible for significantly improved costs in the Diode Division last year. Even though the industry-wide diode market is maturing, and hence has a slower growth rate, our Diode Division has achieved an impressive annual increase in market share over the past several years.

Above—Sandy Aceto, Digital Products Division, South Portland
Right—John Reimer, Diode Division, San Rafael

Components Group continued

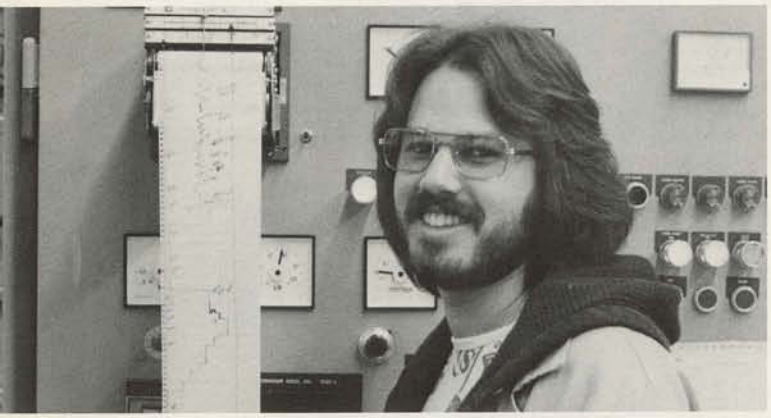
Transistor Division introduced more than 50 new power products during 1976, and the small signal business continued to gain market share. We see major growth opportunities in Transistor during the next decade, and expect this part of our business to increase substantially.

Improved performance last year would not have been possible without implementation of the Global Logistics Program, coordinated by the Manufacturing Services Division. The GLP, launched in late 1975, has consolidated product distribution at three locations—Hong Kong (discrete products), Singapore (integrated circuits) and Mountain View (U.S. distributors). We have been able to respond to customer orders much more quickly, while doubling our inventory turns.

I look forward with anticipation to another good year in which we can plan for further increases in sales and profits.

George.

George D. Wells
Vice President and General Manager
Components Group



Top–Steve Henderson, Manufacturing Services, Healdsburg
Bottom–In Soon Carman, Transistor Division, Mountain View

LSI Group

The LSI Group was formed last September to enable our company to focus resources on a market area that shows perhaps the greatest growth potential in the industry. Our group will be responsible for a full range of state-of-the-art memory and logic devices. Its formation reflects the emerging importance of LSI products in the semiconductor business today.

We have put together a dedicated group of people in marketing, sales, engineering and manufacturing to concentrate on both the current LSI market and Fairchild's forward integration into end products.

LSI products, in which hundreds of circuit functions can be put on one integrated circuit chip, represent the area where future technological breakthroughs will be made. The growth of LSI is primarily due to the continuously decreasing cost per function it can offer to our customers. The average silicon area required to produce a transistor has dropped by a factor of over 100 in the last 10 years, offering greater performance at reduced costs. The worldwide LSI market is expected to expand 17 percent annually over the next decade, becoming a $5.4 billion market by 1985.

Another factor contributing to LSI growth has been the increasing popularity of consumer electronic products incorporating these devices. Items

Left—Solange Keefe, Bipolar Memory & ECL Products Division, Mountain View
Below—Yutaka Watano, MOS/CCD Division, Wappingers Falls

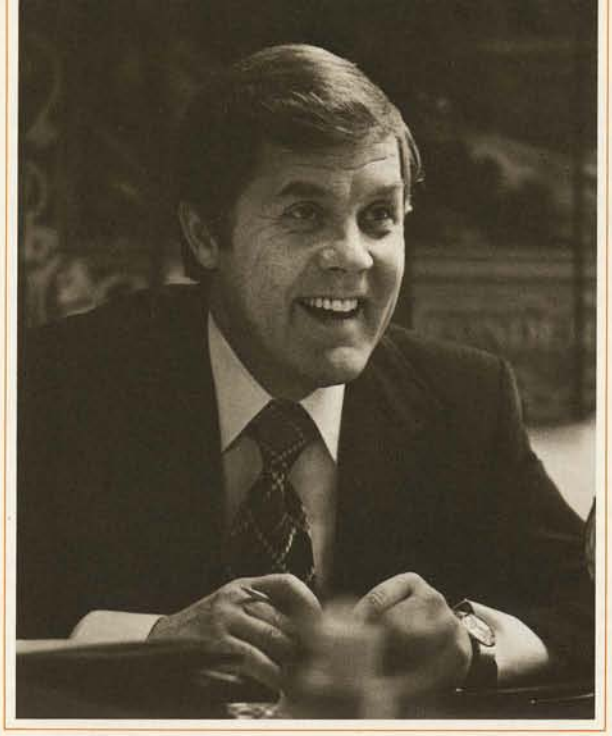
such as digital watches, clocks, calculators and television games accounted for nearly one quarter of the total LSI market last year. Communications products, computers and business equipment accounted for nearly 85 percent of LSI consumption in 1975.

LSI Group's efforts are aimed at three major market segments—electronic data processing, communications and consumer products—and are being carried out through the Bipolar Memory & ECL Products Division, the MOS/CCD Division and the Marketing Unit.

The memories, microprocessors and logic devices produced by Bipolar/ECL offer the high speed and capability made possible through advanced bipolar memory and emitter-coupled logic technology, including the Fairchild-developed Isoplanar integrated injection logic (I^3L™). These products found increasing markets last year in the computer industry and microprocessor systems.

MOS/CCD Division, using metal-oxide-semiconductor and charge-coupled-device technology, produced memories, microprocessors and imaging devices used extensively in computers, consumer products and industrial controls. All these technologies are based on Fairchild's proprietary Isoplanar process.

During 1977, we plan to introduce approximately 35 significant new products. These include static and dynamic memories, microprocessors and high speed logic and communications circuits aimed at the communications and controls markets.



Dave Marriott–Vice President and General Manager, LSI Group

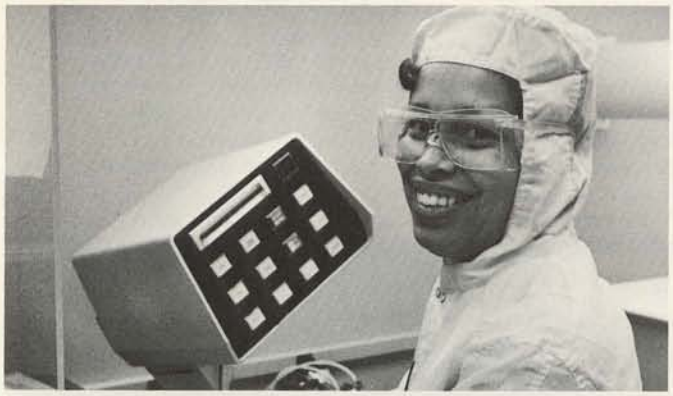
This spring, we began operations in our South San Jose wafer fabrication plant. This brand new, 265,000-square-foot building is one of the world's most modern high volume production facilites dedicated to LSI manufacturing, and will be capable of producing four-inch LSI wafers. One quarter of that building will have more LSI manufacturing capacity than we now have available to the entire group.

Our view of the LSI world has changed over the last several years. Initially, it appeared that a manufacturer could succeed in the LSI business by focusing on one technology and one market segment. It is now clear that long-term success means competing in several markets with a number of LSI technologies. This we intend to do.

The outlook for the LSI Group is very good for 1977. Our organization and start-up phase is now behind us, and we should be able to take full advantage of our technological leadership and new market strategy during our first full year of operation.

Dave Marriott

David J. Marriott
Vice President and General Manager
LSI Group



Top–Lydia Marcado, MOS/CCD Division, Wappingers Falls
Bottom–Larry DeClue, *left* and Daniel Wong, Bipolar Memory & ECL Products Division, Mountain View

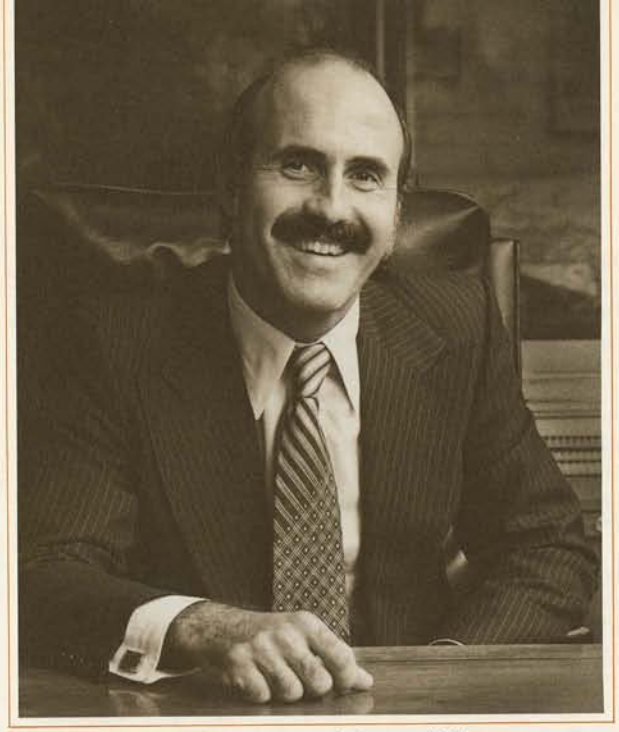
Consumer Products Group

1976 was the year Fairchild established itself as a major factor in the consumer products business. Each of you in the Consumer Products Group can take pride in your contribution to that success.

Introduction of our economy-priced Timeband™ line in January of last year provided Fairchild with the broadest range of electronic timepieces available. Because of increasing demand for liquid crystal watches, CPG introduced five LCD styles in June, with good market acceptance. By the end of the year, we were shipping these models in quantity.

We have also had favorable response to our Timeband and Fairchild lines of LED digital clocks, which are now available in styles ranging from table models to a combination clock and high intensity lamp. In 1977, Time Products will continue to stress a balanced product line, both in price and type of timepieces.

Service improvement was a problem area which Time Products Division addressed last year. Our centralized Service Center in Palo Alto has now reduced turnaround time on watch repairs to one week. We have made changes in our 1977 watch lines to minimize customer problems with battery replacement. Watches are now designed with hatchbacks which permit the customer to change batteries, and we're also including coupon for a free set of batteries with each new watch.



Greg Reyes–Vice President and General Manager, Consumer Products Group

A significant achievement last year was the launching of our Video Entertainment System, the first programmable home television game. The game console and Videocart™ cartridges are based on Fairchild's F8™ microprocessor, supplied by the Microsystems Division.

When we demonstrated a prototype of this unique system at the June Consumer Electronics Show in Chicago, we revolutionized home electronics. Our booth was jammed throughout the entire show. The Video Entertainment System was approved for sale by the Federal Communications Commission in October.

Fairchild is the only company that has a cartridge expandable game. By the end of this year, we expect to have 20 cartridges developed for sale, including high skill games and educational programs. Our company should continue to dominate this market from a technological standpoint.

Exetron Division continued to make important contributions to Consumer Products last year, in-

Left, top – Angelina Trujillo, Exetron Division, Santa Clara
Left, bottom – Becky Stanton, Optoelectronics Division, Palo Alto *Above* – Linda Carter, Time Products, Palo Alto

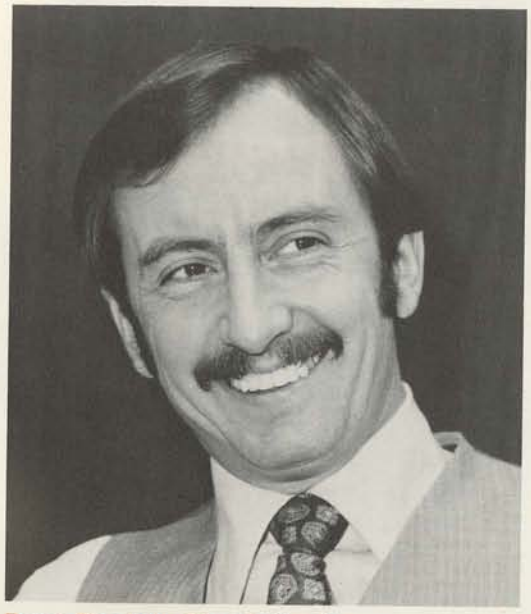
cluding start-up of the first four-inch wafer fabrication facility in the industry. The division supplied CMOS circuits used in watches and maintained excellent performance and control in ramping both LED and LCD watch module production throughout the year to meet watch market demands.

Our Optoelectronics Division experienced steady growth, despite a slowdown in orders for watch displays as many smaller digital watch manufacturers dropped out of the market. Major car and CB radio manufacturers placed large orders for Opto LED displays. At the end of the year, in its first attempt to sell components to the consumer, Opto offered a car clock in its Solid State Technology Kit. This line will be expanded this year to include clock calendars.

Fairchild consumer products were introduced throughout the world last year, and initial market response in areas including Europe and the Far East was gratifying. To accommodate future demand for our products, we broke ground in November for a new 150,000-square-foot CPG headquarters building in Santa Clara, Calif. We expect to move in later this year.

With your help, 1977 should be a good year for our group, both in terms of innovative expansion of our current lines and improved demand for all our products.

Greg Reyes
Vice President and General Manager
Consumer Products Group



Bruce Crockett, Optoelectronics Division, Palo Alto

Instrumentation and Systems Group

I am pleased to report that some of the most dramatic growth within Fairchild last year occurred in the Instrumentation and Systems Group.

Our F8™ microprocessor and Sentry and Xincom testers all produced impressive sales gains. In October, the company announced that Microsystems Division would begin producing the Motorola 6800, a leading microprocessor for the data processing industry, under a second-sourcing agreement with Motorola.

We continued to be the leader in the semiconductor test business last year, with introductions of Sentry VII and Xincom III testers. The Sentry systems test high complexity devices faster than ever before possible. The Sentry VII, introduced at the September Wescon Show in Los Angeles, interfaces directly with our Integrator™ host computer. The Integrator collects data from numerous on-line testers and provides status reports at various stages of semiconductor processing.

Sandy Mendenhall, Instrumentation Unit, San Jose

Instrumentation and Systems Group continued

The Xincom III tester, introduced in May, is the first commercial test system to use distributed system architecture, which permits a number of testers to communicate with a central computer. Systems Technology received more than $900,000 in orders for the Xincom III within the first month of its introduction.

Several major appliance manufacturers have placed high volume orders with the Microsystems Division. Closer to home, the Consumer Products Group has based its programmable home video game system on an F8 controller. We're predicting that, within five years, the majority of American homes will have appliances run by an F8 or similar microprocessor. the majority of American homes will have appliances run by an F8 or similar microprocessor.

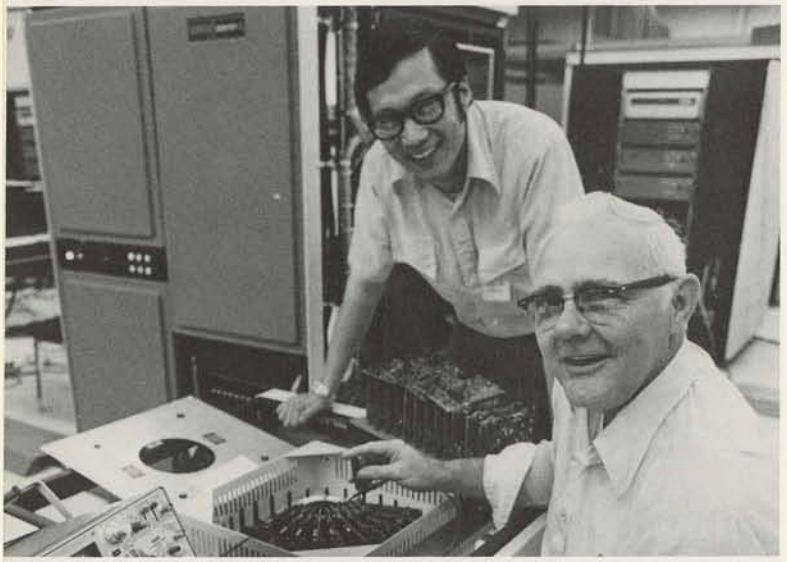
In 1976 we introduced our digital panel meter line of products using the Fairchild 0.5 and 0.8-inch LEDs. In our first year in this product area, we captured a significant portion of the available market. Last year we also started the Memory Systems Unit, a supplier of board level memories to the computer OEM market. In December we delivered our first products. Later this year we expect to introduce a line of standard products using our memory systems.

Jim Bowen–Vice President and General Manager, Instrumentation and Systems Group

In December, we acquired another company, Data Works Instrumentation, Chatsworth, Calif. The Data Works products became part of our Instrumentation Unit product line.

I expect 1977 to be another growth year for us in our major markets. I would like to thank you for your help and support during the last active year, and I look forward to working with you during 1977.

James D. Bowen
Vice President and General Manager
Instrumentation and Systems Group



Top–Raj Shankar, Microsystems Division, San Jose
Bottom–George Lew, left and John Hopp, Systems Technology Division, San Jose
Right–Kathy Smallwood, Systems Technology Division, San Jose

Federal Systems Group

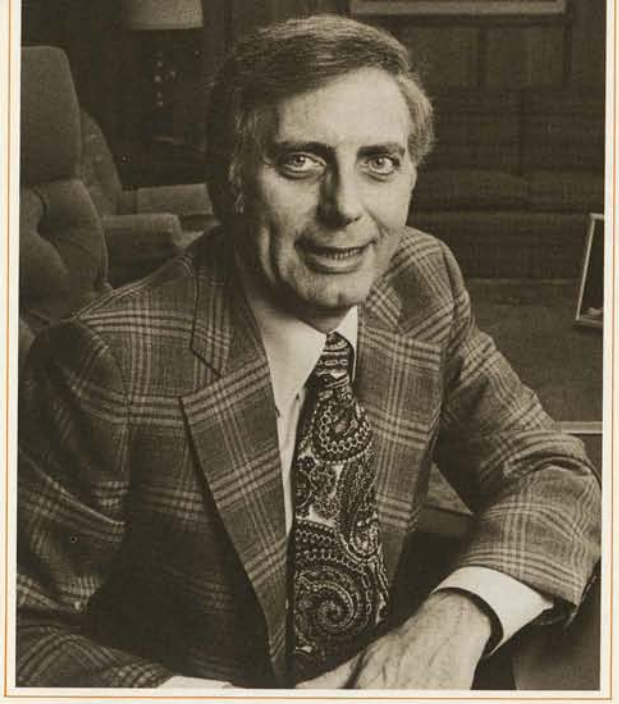
Federal Systems Group continued its steady growth last year, with increases in both sales and bookings. These occurred predominantly in electronic countermeasures and electro-optical systems. I want to thank each of you for your contributions to that success.

In addition to being awarded several significant government contracts, we successfully tested product prototypes and launched new product programs in both the Space and Defense Systems and Imaging Systems divisions.

The U.S. government continued to be our major customer—specifically NASA and the military services. Space and Defense Systems led the group in large contracts with an award of $10 million for signal processing equipment for Navy electronic countermeasure and attack aircraft. The division also received a $6.1 million contract from the Army for special purpose electronic warfare systems.

Industrial Research magazine recognized Imaging Systems Division's MV-201 CCD (charge-coupled device) miniature TV camera as one of the "most significant 100 new technical products of 1976." The MV-201 is small, lightweight and adaptable to many uses in industrial security, law enforcement, scientific measurement and industrial control.

Imaging Systems further advanced CCD technology last year with the introduction of three new cameras—an electronic gunsight TV camera, a TOW Missile Sight System and a solid-state television camera for NASA. The NASA project camera is compatible with a standard television screen display. The camera is a forerunner of a family of high resotion solid-state cameras.



Lou Pighi–Vice President and General Manager, Federal Systems Group

We successfully test-fired one of our CCD cameras installed in an artillery shell. Still in development, the shell is fired over a target area, deployed on a parachute and transmits terrain and target information to a remote command post.

Our KA-99 panoramic aerial camera, developed last year, has been selected as the prime photographic sensor for a new Navy reconnaissance system. The camera is designed to operate at medium-to-low altitudes, covering extremely large areas at high speeds. In the aerial camera operation, we are currently emphasizing development of reconnaissance cameras with longer focal lengths.

Through our research, new product development and continuous monitoring of market conditions, Federal Systems Group has maintained leadership in our industry. We are among the leaders in tactical photographic reconnaissance, communications jamming systems and in electro-optical systems using CCD technology. We expect to double our sales within the next two years. With your help, we will continue this excellent growth rate and maintain our position of leadership.

Louis H. Pighi
Vice President and General Manager
Federal Systems Group

Left, top–Jim Dowling, Space and Defense Systems, Syosset
Right, top–Mavis Catherwood, Space and Defense Systems, Syosset
Left, bottom–Art Roberts, Imaging Systems, Syosset

Industrial Products Division

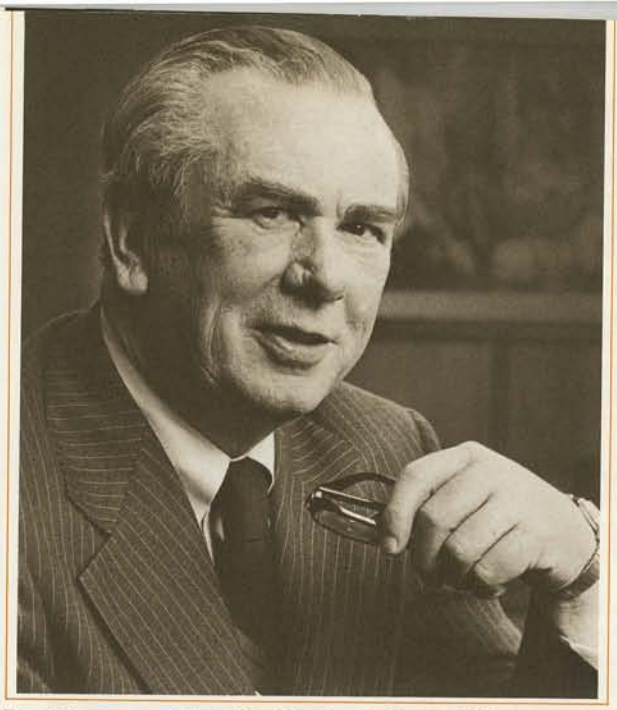
At IPD, 1976 was a year of good fortune resulting from hard work. New product developments and continued aggressive marketing of our established product lines accounted for this growth, and I am grateful to all of you—both long-timers and newcomers—for your help in making it a successful year.

Our audio-visual systems attracted a great deal of customer interest, particularly in industrial sales and training. Fairchild Synchromatic 110 filmstrip projectors are now in use by major U.S. corporations including Ford Motor Company, Exxon and International Harvesters. Formby's Refinishing Products, a Mississippi company, is one of many manufacturers now using IPD's Super 8 projectors in point-of-purchase displays in retail stores.

After many months of field research, the National Retail Hardware Association has selected a customized version of the Fairchild Super 8 as the point-of-purchase display equipment it will recommend for use by its thousands of member retailers.

We introduced the 35mm Synchro-Slide front and rear screen projector early this year to meet demands in the expanding training, education and sales market. To assure our continued leadership in the audio-visual field, new systems development and product improvement continue to play major roles in IPD product planning strategies.

International sales of our aircraft weight and balance systems increased substantially last year, particularly in the Middle East. STAN™ systems were sold to customers including the Royal Saudi Air Force and Iraqi Airways. The personal aircraft of the President of Egypt and the King of Saudi Arabia were also outfitted with STAN systems. Our cockpit voice and flight data recorders continued to contribute to our profitablity.



Ray Hennessey–Vice President and General Manager, Industrial Products Division

Our pressure sensor and magnetic head group continued to gain market share, and contributed to our overall positive performance.

Perhaps the most visible reflection of the growth of our business last year was the addition of a night shift for the first time. This group was added to reduce our delivery time to customers, and it has made substantial progress toward that goal.

As our business continues to expand, we will, undoubtedly, require additional manufacturing space. This is already evident in the obvious stretching of our available space to its maximum capacity. This expansion will, however, be done on a judicious basis with an eye towards maintaining our present profitability. In the final analysis, this provides job security for all of us.

I look to your support in IPD's management efforts to continue the friendly and cooperative climate we all enjoy in this division. There's no question in my mind that it's played a tremendous role in our success.

Top – Steve Blucher, Audio-Visual Products, Commack
Bottom – Pat Tomasi, Audio-Visual Products, Commack

Raymond G. Hennessey
Vice President and General Manager
Industrial Products Division

International Division

For the people of the International Division, 1976 was a year of reorganization. I'd like to report to you on the reasons for our restructuring and the improvements resulting from it.

Some significant revamping took place early last year, primarily in Europe. The previously centralized European operation was divided into northern, central and southern areas. Northern headquarters are now in London, Central in Munich, West Germany and Southern in Milan, Italy.

Since making this change, we have appointed nationals of these three countries as general managers of area operations, enabling us to build longevity in these markets by taking advantage of their greater familiarity with the areas. In Latin America, management responsibilities are now being handled by both expatriates and local nationals.

Our business in Latin America and Southeast Asia remained strong, in large part because of the Fairchild manufacturing facilities in Mexico, Brazil and Hong Kong.

European markets continued to strengthen throughout the year. The agreement announced last summer with a Hungarian firm represents a major breakthrough. The firm will assemble packaged circuits from our bipolar semiconductor chips. We will also supply technical expertise. Fairchild is the first American semiconductor company to establish such an agreement with an Eastern European country.

Our major success in Europe continues to be with the television industry, where we are the largest U.S. supplier of PAL television circuits. Europe will continue to be a major market for television games and we have chosen to sell the Fairchild game in conjunction with major European television manufacturers. This strategy was recently implemented, and early 1977 results look very promising.

John Duffy–Vice President and General Manager, International Division

Sales and profits from TDK-Fairchild, our joint venture in Japan, reached record levels in 1976. Significant trade limitations are imposed on foreign companies operating in Japan, so the joint venture allows us to participate in the Japanese market to a greater degree than would be possible otherwise.

Foreign currency devaluations and changing political situations adversely affected the division's business in some parts of the world last year. In Mexico, for example, the devaluation of the peso weakened customer confidence in the economy as a whole, and forced us to increase prices to maintain profitability.

While 1976 was a year of a lot of change, that is now behind us. This year, we are looking for improved performance in every area—Latin America, Europe and Asia Pacific—and expect excellent growth during the second half of the year.

Right–Bob Blair, Marketing, United Kingdom
Below–Shirley Adamik, International Marketing, Mountain View

John A. Duffy
Vice President and General Manager
International Division

Human Resources

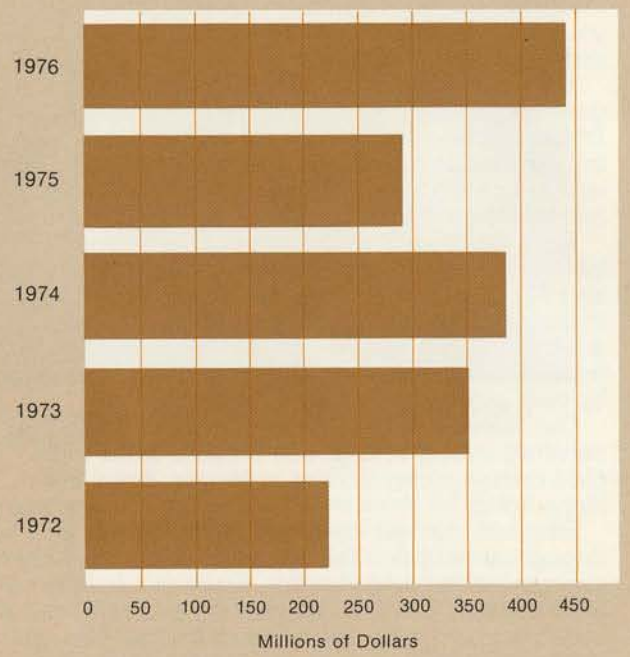
Corporate responsibility is nothing more than a multiple of individual responsibility.

In large companies such as Fairchild, there can be a tendency to think that what we do as individuals doesn't really affect the performance of the company that much. But the fact is that a company can only produce quality goods and services when each individual does the same.

Doing a good job doesn't just show up on your performance review—it shows up on the income statement. More profit means more jobs—more opportunities for promotion, openings for new people and a better chance to implement equal employment opportunity plans. These are all benefits to a company as well as responsibilities.

Whether a handful of people, as we were in 1927, or 21,000, as we are today, Fairchild is a group working together to achieve common objectives—to produce the best products possible and to operate our business so we earn a fair profit for ourselves and our shareholders. The individual commitments of Fairchild people made the performance shown on these charts possible.

NET SALES



Equal Opportunity Report

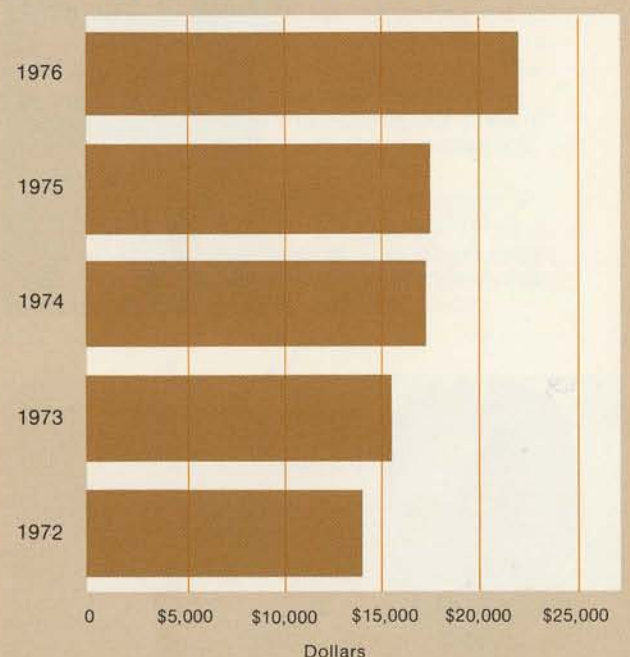
From 1973 to 1976, a statistical analysis of our workforce shows a significant increase in female and minority employment, particularly in the professional, managerial and technical areas.

In January, 1977, Dreyfus Third Century Fund, a New York-based investment firm, rated Fairchild first in equal employment opportunity and second in job safety of 22 instrument and electrical equipment companies evaluated.

Company equal opportunity programs which inform people about new career and training opportunities certainly contribute to this performance, as do the increasing numbers of women and minorities seeking "non-traditional" jobs.

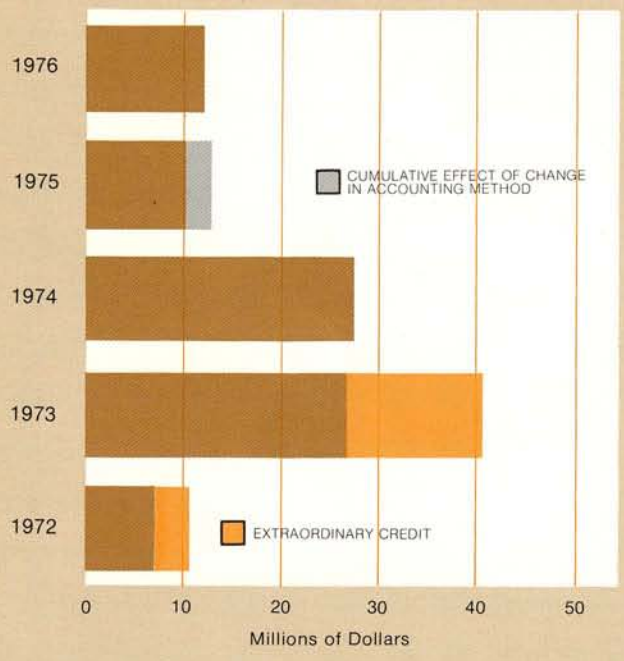
Our Equal Employment Opportunity Department is continuously working to insure equal job access for everyone, and is currently putting special emphasis on a number of job areas, including jobs for veterans and the handicapped.

NET SALES PER EMPLOYEE†

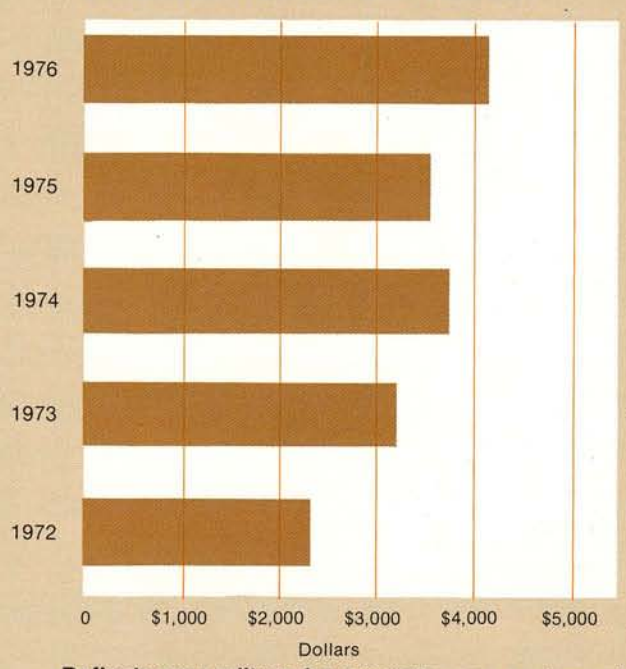


†Based on average number of employees

NET INCOME

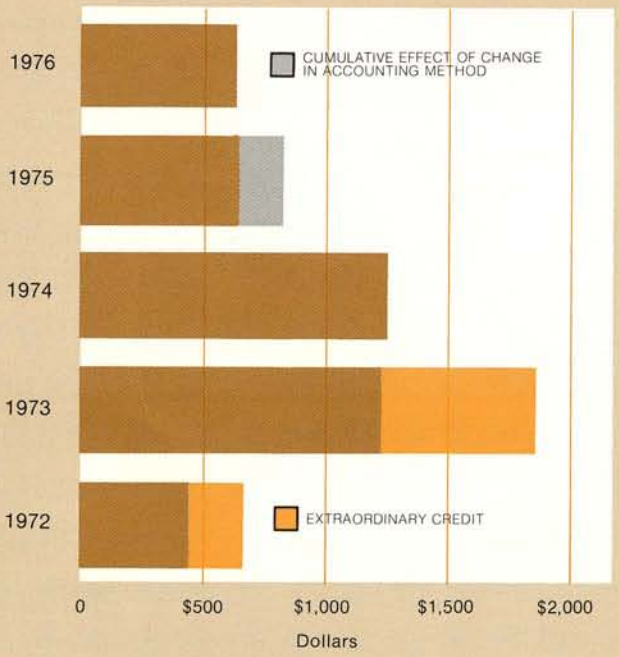


INVESTMENTS PER EMPLOYEE †



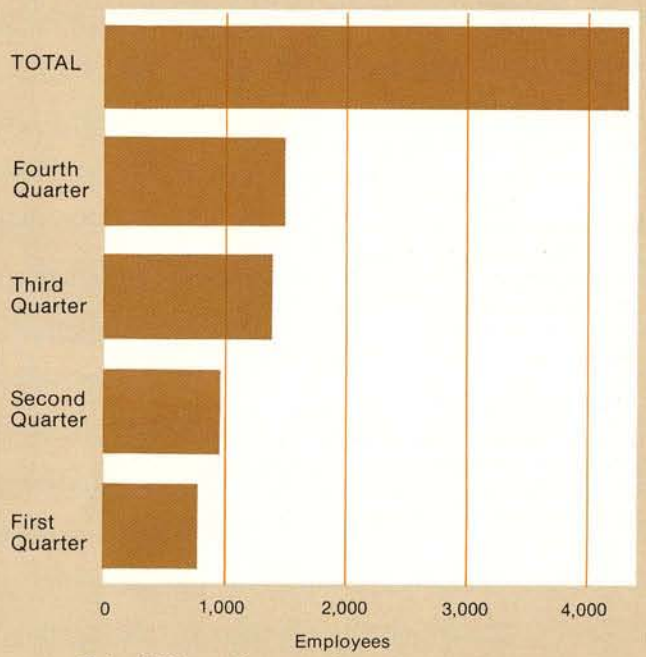
Reflects expenditure for property, new equipment, plants and additional property plus research, development and engineering

NET INCOME PER EMPLOYEE†



†Based on average number of employees

CAREER DEVELOPMENT—1976



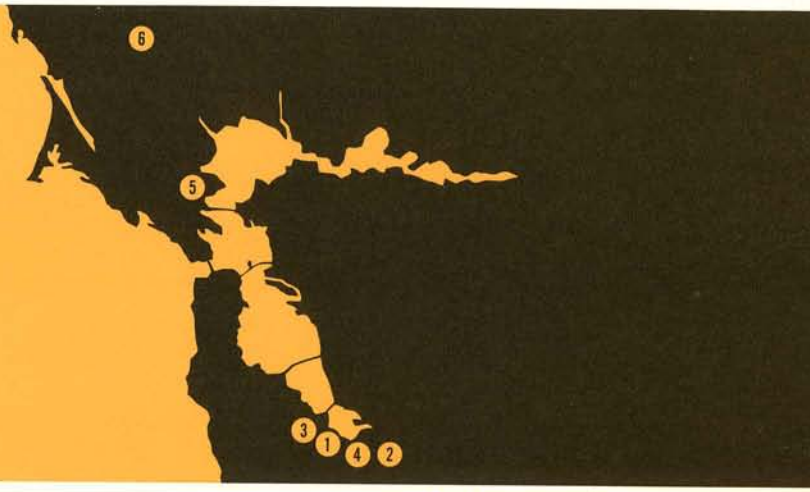
Fairchild employees who made use of courses through the Management and Career Development Center last year.

Operating Groups and Divisions

Fairchild at Home and Abroad

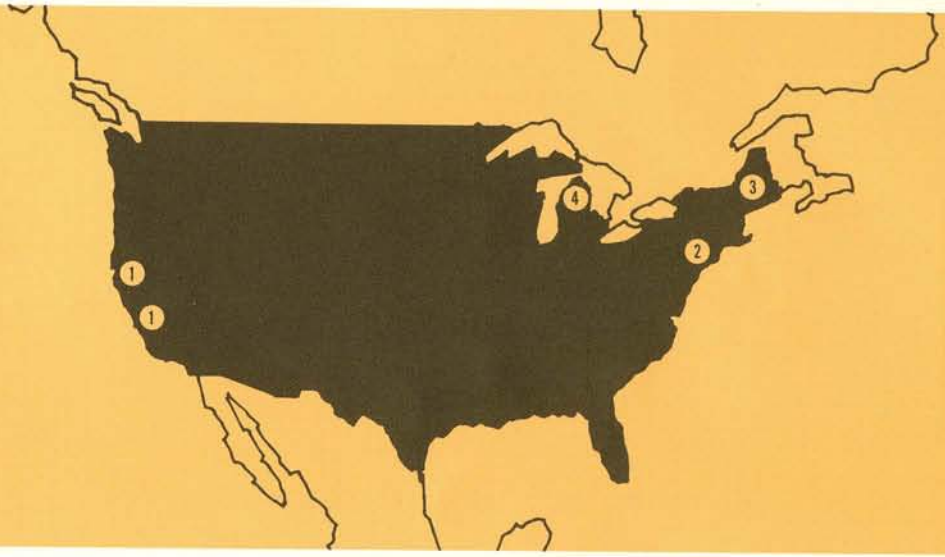
San Francisco Bay Area

1. Mountain View
2. San Jose
3. Palo Alto
4. Santa Clara
5. San Rafael
6. Healdsburg



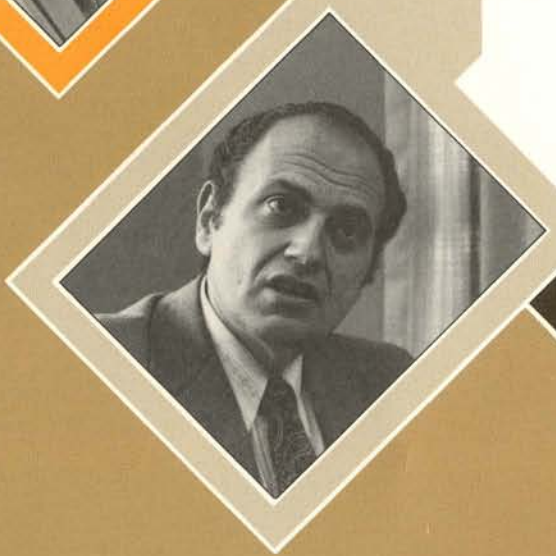
The United States

1. California:
   San Francisco Bay Area
   Chatsworth
2. New York:
   Syosset
   Commack
   Wappingers Falls
3. Maine:
   South Portland
4. Michigan:
   Traverse City



The World

1. United States
2. Mexico
3. Brazil
4. West Germany
5. Korea
6. Hong Kong
7. Singapore
8. Indonesia
9. Australia



FAIRCHILD
CAMERA AND INSTRUMENT
CORPORATION

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