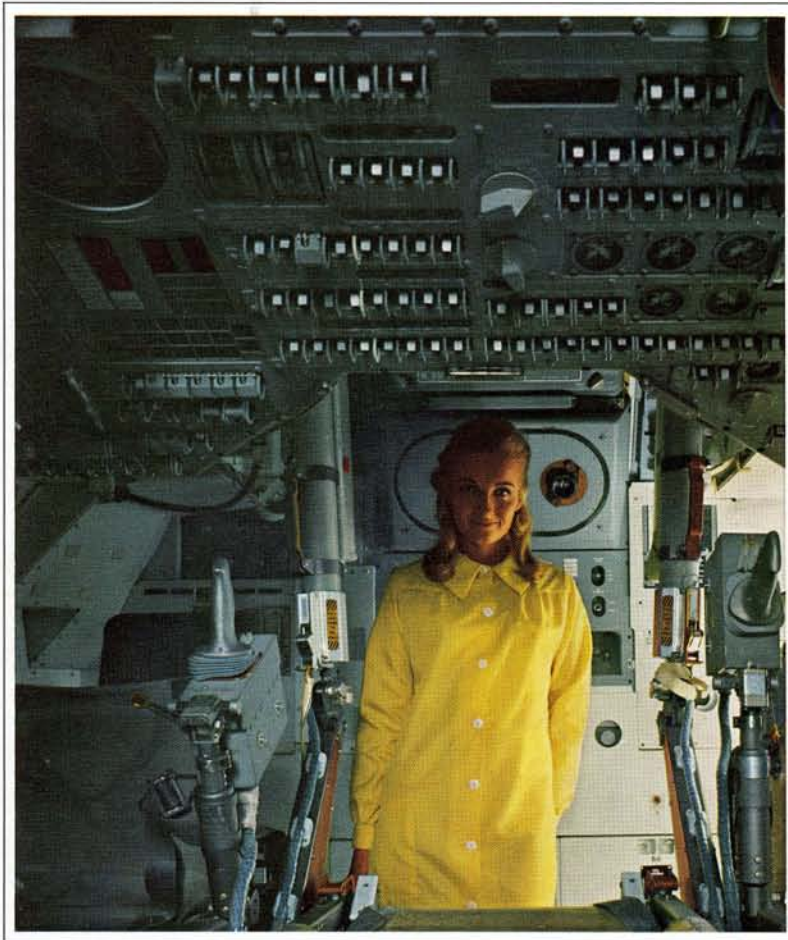


**Fairchild Camera
and Instrument Corporation
1968 Annual Report**



Three Year Highlights

Comparative Figures for the Three Years Ended December 31, 1968

For the Year	<u>1968</u>	<u>1967</u>	<u>1966</u>
Net sales (continuing operations)	\$198,470,000	196,952,000	206,053,000
(Loss) earnings of continuing operations	(3,492,000)	4,622,000	18,913,000
(Losses) of activities being discontinued net of Federal income taxes	(833,000)	(5,091,000)	(3,017,000)
(Loss) earnings before extraordinary items	(4,325,000)	(469,000)	15,896,000
Extraordinary items	4,898,000	(7,078,000)	—
Net earnings (loss)	573,000	(7,547,000)	15,896,000
Dividends paid	2,168,548	2,151,514	2,140,881
Average number of Shares Outstanding (adjusted for 3-for-2 split in 1967)	4,327,578	4,303,147	4,114,471
At December 31,			
Working Capital	\$57,180,000	52,359,000	77,787,000
Shareholders' Equity	83,496,000	84,301,000	93,636,000
Number of Employees	20,867	19,385	19,424
Number of Shareholders	13,736	12,985	11,718
Shares Outstanding (adjusted for 3-for-2 split in 1967)	4,348,221	4,304,490	4,283,337
Per Share Statistics			
(Loss) earnings of continuing operations	\$ (.81)	1.07	4.59
(Losses) of activities being discontinued	(.19)	(1.18)	(.73)
(Loss) earnings before extraordinary item	(1.00)	(.11)	3.86
Extraordinary items	1.13	(1.64)	—
Net earnings (loss) (based on average number of shares outstanding, adjusted for 3-for-2 split in 1967)	.13	(1.75)	3.86
Shareholders' Equity (based on average number of shares outstanding, adjusted for 3-for-2 stock split in 1967)	19.29	19.59	22.76

To the shareholders: This is my first annual report to you as President and Chief Executive Officer of Fairchild Camera and Instrument Corporation. The year 1968 was a year of difficulty and transition. Since assuming office in August, I, together with the other officers of the Corporation, have been reviewing the operations of the Corporation and have formulated plans for improvements and for expansion of the more promising areas. Our efforts had little effect on 1968 results but we are confident of substantially improving performance in 1969.

The Corporation's continuing activities had a loss from operations during 1968 of \$3,493,000. During 1968, in addition to the disposition of certain operations for which provision was made in 1967, the Corporation's former Cable Division was sold and action was taken to dispose of or discontinue certain other product lines. The net operating loss in 1968 for such division and product lines was \$832,000. When this is combined with the loss from continuing operations, it results in a loss before extraordinary items of income of \$4,325,000. After extraordinary income of \$4,898,000, net income for the year amounted to \$573,000. Extraordinary items of income and expense consisted of a profit on the sale of the Corporation's equity in Societa Generale Semiconduttori, S.p.A. in Italy and in certain domestic activities in the amount of \$2,895,000; a credit of \$2,580,000 which represents the excess portion of the 1967 extraordinary charge over the amount actually required in 1968 for the operating losses and loss on disposition of certain activities terminated or sold in 1968;



and a loss of \$577,000 reflecting both realized 1968 losses on the disposition or discontinuance of certain product lines and provision for estimated future losses with respect to products to be discontinued or disposed of.

Several factors adversely affected 1968 operating results:

An analysis of past operations of all divisions indicated the need to make significant provisions for sales returns and for warranty on prior years' sales.

The Space and Defense and Tube Divisions had significant losses on unprofitable contracts which were entered into in prior years. All known losses on these contracts have been provided for.

During the fourth quarter of 1968 a decision was made to discontinue certain products of the Graphic Equipment Division on which significant losses were being experienced. All inventories of such products were written down to estimated

realizable values at the end of 1968.

The Instrumentation Division incurred heavy expenses in the introduction of new test systems during 1968. Continued substantial expenditures for new systems will occur in 1969, but new direct management controls will keep these expenditures within the planned limits.

We recognize that our initial efforts must be devoted toward the proper direction of the existing operations of the Corporation. In January of this year we initiated programs to closely monitor the day-to-day operations of the Divisions which will allow us to identify and correct operational problems before their impact becomes serious.



People, Communications, Planning—Top-level management conference in session, January 22, 23, 1969 in California.

In 1968 the Corporation adopted the policy of including in the consolidated financial statements the accounts of all domestic and foreign subsidiaries. Prior to that time, the financial statements reflected domestic operations only. Since foreign operations, particularly in Hong Kong and Korea, represent a significant part of our semiconductor operations and are an integral part of such operations, consolidated statements including the foreign subsidiaries are much more representative of the Corporation's results and financial position. The 1967 figures in this report have been adjusted to include foreign subsidiaries not previously consolidated. Inclusion of foreign subsidiaries reduced 1967 net loss by approximately \$150,000.

I am satisfied that the programs and controls which we have instituted for monitoring Divisional operations will put us in a stronger position to meet the challenges of future growth. In this transition year we have also placed major emphasis on the people whose creative energies and management skills provide an important ingredient for growth. This emphasis on people, with proper communication and planning, is the vital first step in developing a growth program for Fairchild.

One of the greatest assets which the Corporation possesses is its outstanding technology. In the field of solid state technology, I believe that our scientists

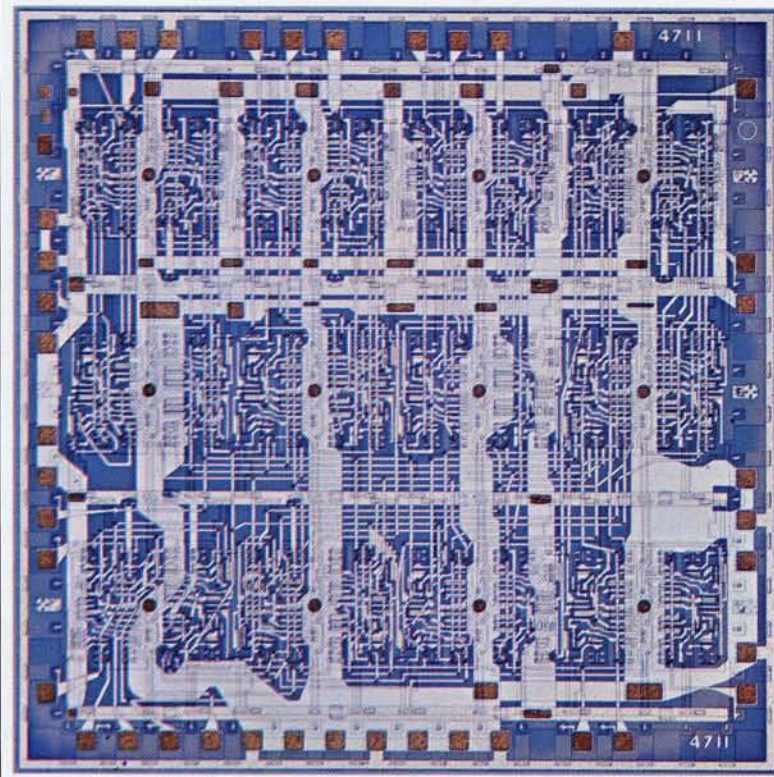
and engineers are second to none in the world. This exciting technology can provide the new products which will be the basis for our long-term growth. In developing our future growth plans we recognize that technological leadership does not assure a high rate of growth in sales and profits, but that technology must be combined with the very best management skills to identify, develop and manufacture products to assure market leadership.

Considerable expansion of production facilities is presently under way to enable us to satisfy the requirements of our customers, particularly in the Semiconductor Division. New production employees are being hired and trained and significant amounts are being expended on new equipment. The increased costs resulting from this program will reduce profits in the early months of 1969 but should result in improving margins in subsequent months. The year 1969 will be a year for developing our products, our plans, and most of all, our people. By working together, I am convinced that we can make Fairchild truly a technological growth corporation.

Sincerely,

C. Lester Hogan
President and Chief Executive Officer

The first Large Scale Integration (LSI) circuit in the industry was marketed by Fairchild Semiconductor in 1968. The 4700, shown here, is one of the family of LSI Micro-matrix devices. It is standard TTL (Transistor-Transistor Logic) array which can be interconnected within itself to perform a variety of digital logic functions. Actual size of the area shown is 145 x 145 mils (thousandths of an inch), and it is equivalent of 876 discrete components — transistors, resistors and diodes.



Technological Leadership. A Prime Fairchild Asset

When the Apollo 8 crew orbited the moon on Christmas, millions of TV viewers were with them. Through the magic of modern technology, they shared in the excitement of seeing the earth from 220,000 miles in space — and they saw it through a Fairchild lens system.

Six of Fairchild's Divisions made important contributions to that historic achievement and to other space efforts that preceded it. As a member of the Apollo team, your Corporation successfully met the challenge of technological problems by the bold application of advanced scientific, engineering and manufacturing concepts.

Space and Defense Systems developed the lens system for Apollo's TV camera. The Semiconductor Division supplied many thousand transistors, diodes and integrated circuits for the spacecraft guidance system and ground instrumentation equipment. The airborne systems of the spacecraft employed transducers and electronic packages manufactured by the Controls Division, and various ground support systems incorporated equipment supplied by DuMont Electron Tubes, Instrumentation, and Electro-Metrics.

The list is impressive. Yet it was less than 50 years ago that Sherman Fairchild's first aerial camera photographed a small segment of the earth from an altitude under 2,000 feet.

The forward thrust of your Corporation is in large part due to leadership in technological advances, as dramatized by the Apollo achievements. The Corporation's research and development program is a major part of the long range growth plan. From our solid state research laboratory in Palo Alto, California and from the Division laboratories come the innovative concepts that make possible the improvement of existing products and the creation of entirely new products.

Major emphasis is being directed to an interchange of technology between the various divisions and subsidiaries of the Corporation. We have established a working system for extending useful discoveries and developments to all groups that can benefit from them. Promising technologies are thus being tapped for exploitation into wider markets.

The high technology levels achieved by the Corporation are evident in many areas. At our optical laboratories in El Segundo, California, computers assist in the design of sophisticated lens systems produced by the Space and Defense Systems Division. These have included the television lens systems for the Apollo 8 and previous Apollo programs. Our Graphic Equipment Division's technology, to name another area, has advanced to the point of using solid state devices for the reproduction of words and images in graphic arts equipment. The DuMont Electron Tube Division is merging semiconductor technology with tube technology to develop products that will be useful in phonovision systems and in the next generation of airborne display systems. The Industrial Products Division has under development an advanced data recorder system for aircraft which will substitute digital techniques for the present method of inscribing flight information electromechanically. The integrated circuits designed for these applications will surely help to prevent air mishaps in the future.

Fairchild is recognized as the unquestioned leader in semiconductor innovations. As the industry moves into Medium Scale Integration and Large Scale Integration, the Semiconductor Division is developing new ways to fabricate devices that incorporate hundreds of functional elements on a single chip of silicon. These devices find applications in desk calculators, ground and airborne computers, process and machinery controls, and general logic systems. Circuitry designs are now so sophisticated that the entire electronics of a desk calculator,

including memory and logic, can be contained on three tiny silicon chips.

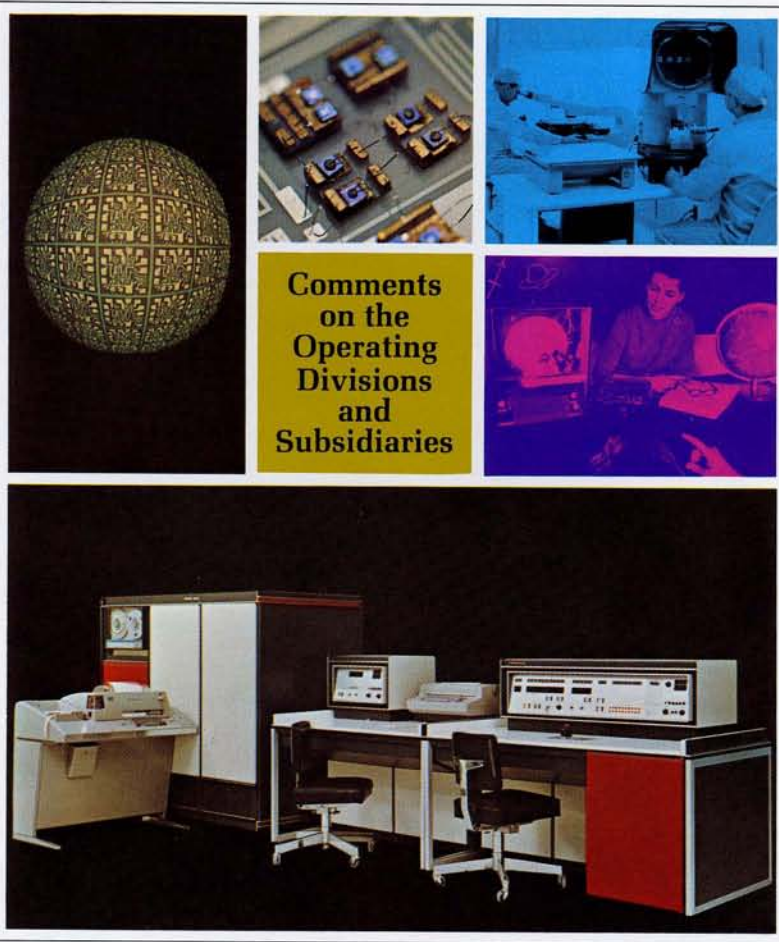
Your Corporation is also leading in the development of semiconductor active memories — SAM's for short — to be used as the central component in computers. For reasons of reliability, speed, and ultimately low cost of production, we believe that SAMs will supplant the ferrite core memory systems now in use.

To design such circuits, Fairchild makes use of computers to an extent unrivaled by any other manufacturer. The computer is a marvelous design aid that saves weeks and often months of engineering time — and does so without the risk of human error. It not only designs a circuit for optimum performance but cuts the photographic masks and generates the entire test program for a device.

The increasing complexity of circuit technology which is evolving from the use of computer aided design is changing the very order of things. This could, in the next ten years, change the relative

standing of the major electronic companies. Our goal, of course, is to organize and enhance our technological resources so as to assure for ourselves a dominant position in the industry.

As electronic progress hastens with the speed of a virtual technology explosion, the opportunity for broadening present markets and creating new markets becomes greater than at any time in past history. We intend to achieve long term benefits for the Corporation and its shareholders by continuing strong support of our research and development efforts. Through the cross fertilization of newly developed technologies, we should be able to increase our stature as a technological growth corporation. Fairchild's strength and future lie in its unique ability to recognize the avenues of greatest opportunity and progress, to follow with prudent, economic management of our developing technologies, and to profitably move the right products into the marketplace at the right time. In brief, we must demonstrate anew our proven capacity for technological leadership.



Semiconductor Growth accelerated in the Semiconductor Division as 1968 drew to a close. As pointed out in the Nine Months' Report, in recent years the Division has not achieved its maximum profit potential, and a major effort is being concentrated on this aspect.

Long recognized as the industry's technological pace-setter, the Division maintained its position with a number of highly significant product and process advances.

The growing acceptance of the Fairchild-pioneered MSI (Medium Scale Integration) family of products is an important factor in the Division's growth potential. MSI is a series of "building blocks" or computer sub-functions designed specifically to fill customer needs for increasing complexity.

Fairchild placed the industry's first LSI (Large Scale Integration) product, the series 4500 MicromatrixTM arrays, on the market. Micromatrix, which can be customized to perform virtually any digital logic function the customer requires, won recognition as one of the 100 most significant products of 1968 (all industries) in the National Research Week competition in October.

One of the keys to successful LSI product development is having the facility to design with the use of a computer. Efforts in 1967 and 1968 have brought Fairchild to full implementation of the industry's finest Computer Aided Design (CAD) facility. CAD consists of feeding logic descriptions into the computer, which then simulates the logic, devises the optimum circuit design, and generates the needed tests to prove out the circuit. A plotter, operated off the computer, then is able to draw and cut the photographic mask.

Semiconductor Active Memories Inroads being made by semiconductor memories as replacement for computer core memories will open a significant new market for Fairchild. Now in the pre-production stage, Fairchild's SAM (Semiconductor Active Memory) has already won significant customer interest. SAM provides 16,000 bits of memory (with all-drive and decode) in a volume 1½" by 1½" by 3", approximately one-tenth the volume required by its core counterpart. It is priced competitively with core memory equivalents, and it is superior to them in size, speed and power requirements. It has applications in all computer systems.

Semiconductor introduced a new integrated circuit each week for 52 weeks ending in 1968, fulfilling a public pledge made in 1967.

In both integrated circuits and discrete devices old markets expanded and new ones began to develop in 1968. Government procurements continue to expand because of the press for defense technical equipment, strategic weapons systems, and space guidance and control systems. The commercial

computer market continues its dynamic growth as the third generation of computers moves into high volume production. The industrial market continues its conversion to solid state, and the consumer market commits more heavily to semiconductors. Additionally, there are a number of semiconductor users emerging who previously solved their problems electromechanically, electrically or pneumatically, such as process control fabricators and desk calculator manufacturers.

Overseas Operations The fastest growing market for semiconductors in the world is the Asian market, and Fairchild is very well positioned here with a sales and customer service force and manufacturing facilities in Hong Kong and Korea, and a planned integrated circuit factory in Singapore. Both the Hong Kong and Korean facilities have expansion programs under way.

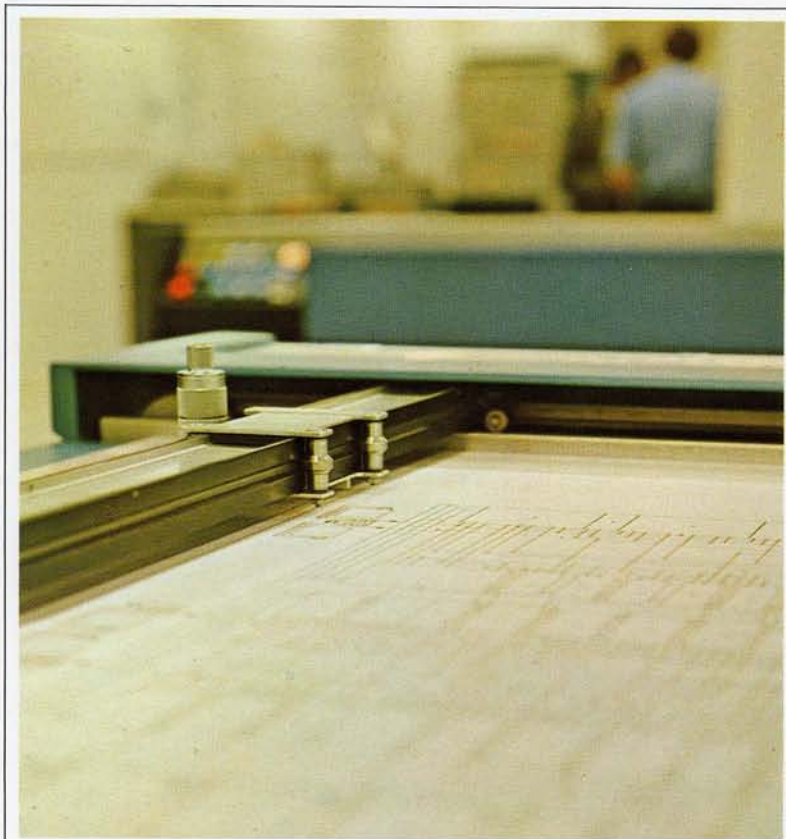
The sale of Fairchild's one-third interest in Societa Generale Semiconduttori (SGS) provided the opportunity for Fairchild to launch a more aggressive and comprehensive effort in the \$410,000,000 European market, which is expanding more rapidly than the U.S.

Fairchild has already begun to serve customers in Europe through a marketing effort and will shortly provide customer services, applications engineering, information, a field service force and an inventory of products for immediate delivery. A manufacturing facility in Europe is scheduled to begin operations in early 1970. The Division already has a strong identification in Europe through its previous association with SGS.

Domestic Facilities Also Expanded Divisional headquarters, and some production moved into the new 340 thousand-square-foot building in Mountain View, bringing the Division's total facilities to approximately 1.5 million square feet, a 27% gain.

In any review of Semiconductor, several things stand out. Fairchild is recognized as the technology leader; Fairchild is number one in DTL (the most popular digital logic), in linear integrated circuits and in MSI; Fairchild has the broadest penetration of any manufacturer into the computer industry with both discrete and integrated products; Fairchild's applications-oriented product development group produces more products for the world-wide home entertainment market than any other producer; and Fairchild possesses an exceptional marketing and sales force, from a technical and creative standpoint.

The Division expects continuing change in the industry; expansion of domestic and international markets and continued acceptance of more sophisticated products, all factors which favor a technologically-strong Division like Fairchild Semiconductor.



Computer Aided Design is one of the keys which make Fairchild's LSI effort outstanding. The computer is fed logic descriptions, devises the optimum circuit design, and generates the test program needed to test the circuit. Here, the computer drives a plotter to design and cut the photographic mask for custom Micromosaic™ arrays.

Board of Directors

Sherman M. Fairchild Founder; Chairman of the Board of the Corporation and Chairman of the Board of Fairchild Hiller Corporation

Dr. C. Lester Hogan President and Chief Executive Officer

Robert Bruce, Jr. Vice President of the Corporation

Walter Burke Financial Advisor to Sherman M. Fairchild

William C. Franklin Consultant

Roswell L. Gilpatric Lawyer; Member of the firm of Cravath, Swaine & Moore

Louis F. Polk, Jr. President, Metro Goldwyn Mayer, Inc.

William A. Stenson Executive Vice President, The Bank of New York

J. Bradford Wharton, Jr. Management Consultant; President of the Wealdon Company: Investments, Farming

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Nelson Stone Vice President, General Counsel and Secretary

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Edward A. Smolinski Comptroller—East Coast

Stanley I. Ross Assistant Comptroller

James P. Landen Assistant Treasurer

Philip Haas, Jr. Assistant Secretary

General Counsel Cravath, Swaine & Moore, New York

Independent Certified Public Accountants Peat, Marwick, Mitchell & Co.

Transfer Agent The Bank of New York

Registrar First National City Bank of New York

