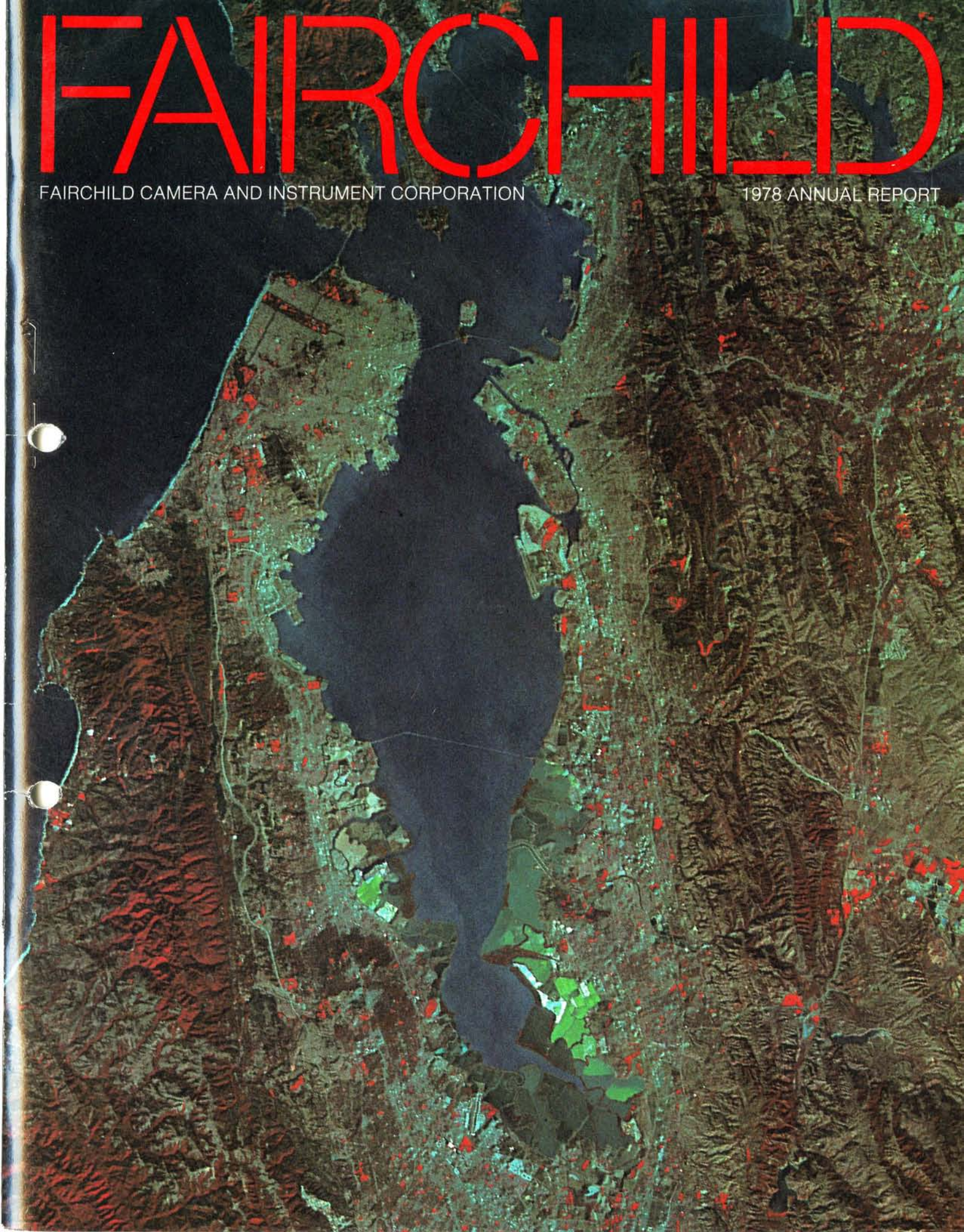


FAIRCHILD

FAIRCHILD CAMERA AND INSTRUMENT CORPORATION

1978 ANNUAL REPORT



On the cover:

Satellite photo of the San Francisco Bay Area covers more than 2,500 square miles. Fairchild plant facilities in the picture range from San Rafael, near the top of the page, down the peninsula known as "Silicon Valley" to San Jose at the bottom. The scene was photographed from an altitude of 570 miles by the Landsat satellite which is equipped with a specially designed high-resolution optical system produced by Fairchild's Imaging Systems Division.

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FINANCIAL HIGHLIGHTS

| | 1978 | 1977 | % Change |
|---|------------------|-----------|----------|
| <i>For the year (In thousands):</i> | | | |
| Net sales | \$533,832 | \$460,108 | + 16.0 |
| Net income | \$ 24,764 | \$ 11,162 | + 121.9 |
| Average number of common and common equivalent shares outstanding | 5,522 | 5,409 | + 2.1 |
| <i>End of year:</i> | | | |
| Working capital (In thousands) | \$123,102 | \$121,187 | + 1.6 |
| Shareholders' equity (In thousands) | \$205,916 | \$184,865 | + 11.4 |
| Number of employees | 25,939 | 19,893 | + 30.4 |
| Number of shareholders | 10,792 | 11,586 | - 6.9 |
| Shares issued (In thousands) | 5,392 | 5,371 | + .4 |
| <i>Per share statistics:</i> | | | |
| Net income | \$ 4.48 | \$ 2.06 | + 117.5 |
| Shareholders' equity at year end | 38.19 | 34.42 | + 11.0 |
| Cash dividends | .80 | .80 | - |

Annual Report on Form 10-K

Fairchild's Annual Report on Form 10-K for the year ended December 31, 1978, as filed with the Securities and Exchange Commission, contains additional information about the company and is available to Fairchild shareholders on request, without charge. Please write: Corporate Communications Department, Fairchild Camera and Instrument Corporation, Mail Stop 20-2260, Mountain View, California 94042.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Fairchild Camera and Instrument Corporation will be held at Rickey's Hyatt House, Palo Alto, California, starting at 10 a.m. on Friday, May 4, 1979.

Independent Accountants

Price Waterhouse & Co.

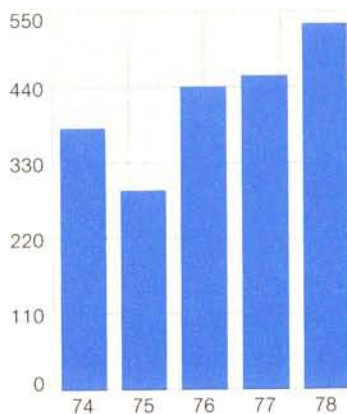
Transfer Agent

The Bank of New York

Registrar

Citibank, N.A.

Net Sales
(Millions of Dollars)



In 1978, Fairchild Camera and Instrument Corporation attained the half-billion dollar level in annual sales. Worldwide volume increased to a record \$533,832,000 from \$460,108,000 in the preceding year.

Earnings Increase

Earnings more than doubled, climbing to \$24,764,000, or \$4.48 per share, from \$11,162,000, or \$2.06 per share, in 1977.

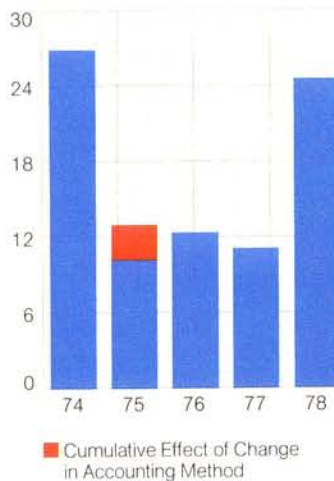
In the fourth quarter, sales rose to \$155,878,000 from \$116,191,000 the year before. Earnings amounted to \$6,040,000, or \$1.09 per share, compared with \$4,469,000, or 83 cents per share, in the 1977 period.

Fourth quarter earnings reflected a one-time pre-tax charge to income of \$5.9 million, including inventory writedowns, as a result of the company's withdrawal from the digital watch business.

This decision recognized that the low profit margins and relative instability of the digital watch market are not compatible with Fairchild's long-term concentration in the high technology field.

Royalties and other income increased to \$5.4 million for the fourth quarter, which included gains from the sale of fixed assets and securities held for investment.

Net Income
(Millions of Dollars)



Business Strength

For the broad range of our operations around the world, 1978 proved to be much stronger than anticipated. This mirrored both the strength of the various econ-

omies and the penetration by electronics of countless new and untapped product applications.

Incoming order rates for both semiconductor products and electronic equipment set new highs in the final quarter. Year-end backlog reached a record \$294 million, up more than 55 percent from 1977.

Semiconductor and Equipment Growth

In semiconductor products, the powerful, worldwide demand has led us to expand production at our domestic and foreign plants, with attendant start-up costs. Total capital expenditures in 1979 are expected to more than double last year's \$32 million. These expenditures will considerably reduce the company's currently high cash position during the year.

The continuing growth in the computer, automotive and military markets for semiconductors has been augmented by a rapid conversion of electromechanical devices to solid-state solutions.

In electronic equipment, sales of Fairchild's computer-controlled test systems grew sharply in 1978. In addition, the company acquired Faultfinders, a New York company, and the assets of Testline, a Florida company, both of which manufacture automatic printed circuit board test equipment.

Substantially higher volume was achieved in the government and industrial products area, which includes aerial cameras, audio-visual projectors and aircraft data systems.

Corporate Ventures

During 1978 the company invested in common stock and convertible notes of Magnuson Systems Corporation, under terms which permit Fairchild to own a significant interest in this developer of IBM-compatible computers.

The company also concluded an agreement with Robert Bosch GmbH of West Germany to supply this major automotive equipment company with technology and products for solid-state ignition systems.

Late in the year, Fairchild formed a corporate joint venture with The General Electric Company Ltd. (GEC) for the production of semiconductor products in the United Kingdom.

At the close of 1978, the company had working capital of \$123 million and shareholders' equity of \$206 million. Spending for research, development and engineering amounted to \$56 million for the year.

At present, we expect 1979 to be a year of further, healthy growth in all of the major markets the company serves, both domestic and international.



Wilfred J. Corrigan

Wilfred J. Corrigan
Chairman and President

March 12, 1979

Fairchild Camera's worldwide operations are divided into two main product groupings—Semiconductor Products, accounting for some 70 percent of corporate volume last year, and Electronic Equipment. Both have sales, service and training activities in locations around the globe.

Fairchild's primary business is the development, manufacture and sale of semiconductor devices, electronic end-products and systems. A pioneer in solid-state circuitry, its products make use of virtually every major semiconductor technology today.

As an example, the company in 1978 introduced the 9440 Microflame™ 16-bit microprocessor and associated FIRE products family. It brings full minicomputer capabilities for the first time to the microprocessor world, with applications ranging from distributed processing and telecommunications to personal computing. The 9440 is based on Fairchild's proprietary Isoplanar Integrated Injection Logic (I³L[®]) technology.

Two other important devices using I³L technology were announced last year—the 9414 data encryption circuit, approved by the National Bureau of Standards for safeguarding computer information, and the 9423 64 X 4-bit first-in, first-out (FIFO) memory, expected to find wide usage in microcomputer systems.

A digital logic family that links the high speed of Isoplanar Schottky technology with one-fourth the power consumption of conventional devices was introduced by the Integrated Circuits Group. Designated FAST (Fairchild Advanced Schottky TTL), it currently consists of 23 circuits, including both SSI and MSI densities, and is expected to grow to more than 70 circuit types.

The company continued to expand its bipolar products line in 1978, with a full range of high-speed memories and logic devices. In optoelectronics, Fairchild became a leading industry supplier of LCD (liquid crystal display) digits.

During the year, the company's

MOS Products Group consolidated administrative and engineering activities in the South San Jose manufacturing plant. Major computer equipment firms made commitments to Fairchild's 64K charge-coupled-device (CCD) memories for disk-enhancement and replacement.

The demand for state-of-the-art logic and memory products spurred a comparable need for LSI and VLSI test systems, a market in which Fairchild has become a significant factor.

A new production LSI test system, called Sentinel™, was announced by the Test Systems Group at year end. Bridging the gap between large, general purpose LSI systems and less expensive, special purpose bench-top testers, Sentinel is designed to cut semiconductor testing costs appreciably.

The group's Xincom Division announced an enhanced timing module (ETM) which, for the first time, permits full characterization of CCD memory components. Xincom also introduced a 25MHz test system that handles the new generation of ECL (emitter-coupled logic) devices, high-speed metal-oxide semiconductor circuits and static memories.

The Government and Industrial Products Group continued to develop miniaturized CCD TV cameras in 1978. A U.S. Air Force contract calls for the Imaging Systems Division to produce these cameras for cockpit installation in tactical aircraft, with deliveries to start in 1979. The KA-112A reconnaissance camera, with a 72-inch focal length, called the most sophisticated camera in its field, has been installed on Mirage fighters. It can be adapted for use in other airplanes.

In 1978, a prime growth market for Fairchild movie, filmstrip and 35mm slide projectors was point-of-purchase merchandising displays. The Industrial Products Division also supplied the airline and aircraft industries with voice and flight data recorders currently in use in more than 200 aircraft fleets.

FAIRCHILD WORLDWIDE

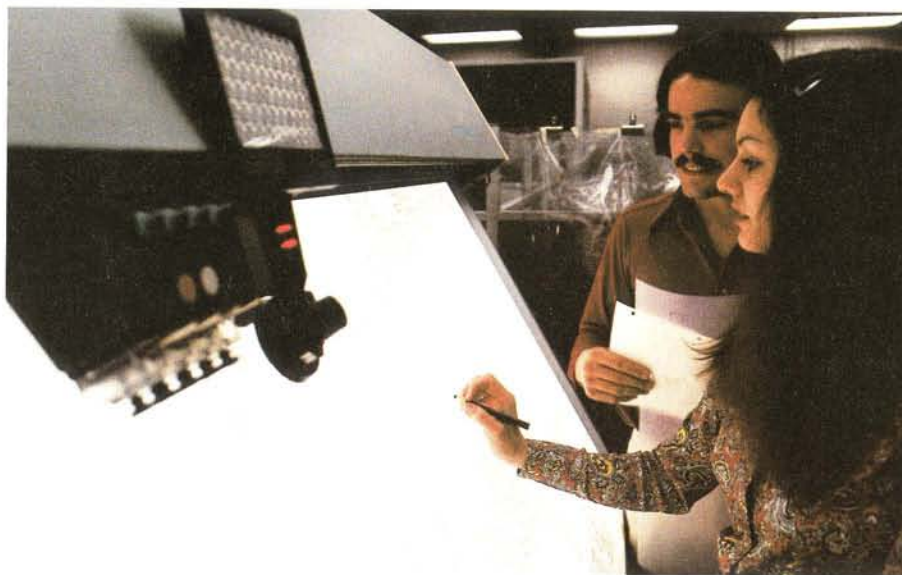


The Semiconductor Products organization, headquartered in Mountain View, California, consists of nine units which manufacture and market solid-state components for the computer, industrial, automotive, government and consumer markets.

Product complexity ranges from a single diode or transistor, through integrated circuits containing tens of thousands of such components on a single chip, to printed circuit boards that carry the entire computational section of a computer in a space the size of this page. Semiconductor operations include MOS Products, Bipolar/LSI, Digital Products, Linear Products, CMOS Products, Hybrid/Automotive, Transistor, Diode and Optoelectronics.

The company's Electronic Equipment operations, representing the balance of worldwide sales, include the Test Systems and Digital Equipment Groups, headquartered in San Jose, California, and the Government and Industrial Products Group, based in Syosset, New York. Operating elements include memory systems and video products; component test systems, including Sentry® and Xincom products; and subassembly test systems, made up of Faultfinders and Testline products.

Semiconductor operations in the Americas include manufacturing and support functions in 10 major locations and 27 sales offices in the United States, Canada, Mexico and Brazil. Key semiconductor



Top, this digitizer in the South Portland, Maine, digital integrated circuit plant converts circuit design information to computer tape form for production of FAST products. Center left, Manuel Diaz, sales manager, and Efram Perez, plant manager, shown outside Fairchild's manufacturing and sales headquarters in Mexico City, head semiconductor operations in Mexico. Center right, hand-held control console, shown during engineering tests in Mountain View, is a part of the company's 9440 Microflame™ microcomputer family. Bottom, in 1978 the Sentry Systems Division introduced the Sentinel system, a medium-cost production LSI tester aimed at lowering costs for high volume semiconductor manufacturers and users.



facilities include more than one-million square feet of space in Mountain View, California, serving as corporate headquarters and as the manufacturing center for bipolar memories, linear and hybrid devices, transistors and new technologies.

Another major semiconductor plant is the 280,000-square-foot South San Jose facility, opened in 1977 as the company's LSI manufacturing center. Produced in this plant are the 16K N-Channel MOS RAM and the 64K CCD memory. Future advanced products, both bipolar and MOS, are planned to be manufactured in this facility.

The San Rafael plant, just north of San Francisco, houses operations of the Diode Division. Fairchild's 84,000-square-foot materials plant in Healdsburg, 50 miles north of the Golden Gate Bridge, produces the basic silicon wafers used in semiconductor manufacturing.

Other California semiconductor operations include the research and development center in Palo Alto, and a 50,000-square-foot building in Santa Clara which houses the company's CMOS (complementary MOS) Products Division.

Two major facilities in the Eastern United States serve the semiconductor divisions. A 50,000-square-foot facility at Wappingers Falls, New York, is dedicated to production of N-Channel MOS microprocessors and peripherals. South Portland, Maine, is the site of the company's main production of digital integrated circuits. The 200,000-square-foot facility includes a new 4-inch wafer line

Top, an operator observes growth of a single-crystal silicon ingot in Fairchild's Healdsburg, California, materials plant. Diamond saws subsequently slice the ingot into thin semiconductor wafers used in circuit production. Bottom left, AN/TLQ-17A countermeasures set, designed for use in military situations against air and ground communications, is produced by the Government and Industrial Products Group in Syosset, New York. Bottom right, Richard Naparty, system test supervisor (left), and Robert Clickner, operations manager, examine components of an in-circuit test system at the Faultfinders manufacturing facility in Latham, New York.

dedicated to fabricating the FAST family of high-speed, low power Schottky TTL circuits.

Outside the United States, Fairchild Mexicana, S.A. operates a 28,500-square-foot manufacturing facility in Mexico City, Mexico, where employees assemble integrated circuits and discrete components for the Latin American market. A 12,000-square-foot plant, run by Fairchild Semiconductores, Ltda., in Campinas, Brazil, produces components principally for Latin American customers.

Fairchild Electronic Equipment divisions have operations in California, Florida, Michigan and New York.

The Test Systems Group, headquartered in a 145,000-square-foot plant in San Jose, California, consists of three basic units, the Sentry Systems Division, Xincom System Division and Subassembly Test Systems Division. Sentry manufactures advanced automatic test equipment for electrical testing of semiconductor components.

The Xincom Division produces sophisticated memory test systems in its Chatsworth, California plant. The Subassembly Test Systems Division represents two acquisitions by Fairchild during 1978 — Faultfinders, based in Latham, New York, and Testline, in Titusville, Florida. Both units serve the printed circuit board test market.

The Government and Industrial Products Group is made up of four operating units: the Space and Defense Systems, Imaging Systems, and Industrial Products Divisions, and the RF Systems operation.

The Space and Defense Systems Division operates in a 245,000-square-foot facility in the central Long Island community of Syosset, New York. Products include electronic data systems, secure communications systems and electronic timing and control systems. Principal products of the Imaging Systems Division are aerial reconnaissance and surveillance camera systems and CCD electro-optical imaging systems.

The Industrial Products Division, based in Commack, New York,

produces a broad line of audio visual products such as portable movie, filmstrip and 35mm slide rear screen sound projection systems. The division also manufactures aircraft cockpit voice and flight data recorders, aircraft weight and balance systems, and a line of industrial pressure sensors.

Top right, a Sentry® VIII test system is used for final checkout of microprocessor components at Motorola's semiconductor manufacturing site in Tempe, Arizona. Center right, Fairchild's newest semiconductor facility is the 280,000-square-foot South San Jose plant, dedicated to LSI and VLSI production. Bottom right, a Galaxy™ Super-8 cassette projector, manufactured by the Industrial Products Division, helps demonstrate product benefits of small appliances in Reay's Hardware store, Canoga Park, California. Below, Donald C. Vadnais, manager of 3M Company's Business Communications Products Department, and Ronald Carlson, Fairchild regional distribution manager based in Minneapolis, discuss advantages of the Fairchild 1728 CCD imaging chip used in 3M's Express 9600 high-speed facsimile transceiver.



Fairchild solid-state components and circuitry are marketed by a number of subsidiary companies which operate a total of 12 sales offices in eight European countries. These offices are divided into three geographic regions. Headquarters for Northern Europe is located in London, England; Central Europe in Munich, West Germany; and Southern Europe in Milan, Italy, with regional French headquarters in Paris. Independent distributors and sales representative firms supplement the Fairchild network in other major European and Middle Eastern countries.

Sales and marketing for the United Kingdom and Scandinavia are coordinated by Fairchild Camera and Instrument (U.K.) Ltd. In addition to the London headquarters, this company maintains sales offices in West Lothian, Scotland and Stockholm, Sweden.

Fairchild Camera and Instrument (Deutschland) GmbH is responsible for coordinating central European activities in Germany, Austria, Switzerland, and the Benelux countries and has headquarters at Munich as well as offices in Stuttgart and Hanover, West Germany; and Eindhoven, Holland. Sales in Austria are coordinated through Fairchild Electronics GmbH, with an office in Vienna. Also covered by Central Europe are South Africa, Israel, Turkey, Iran, and the Eastern Block of nations.

Italy, France, Spain, Portugal and Greece constitute Southern Europe, which has area headquar-

ters in Milan, Italy, and sales offices in Rome and Paris. They are maintained by Fairchild Semiconduttori S.P.A.

International markets for U.S. electronic products continue to expand rapidly with many countries depending on American innovations to keep their manufacturing updated. Europe currently accounts for approximately 25 percent of worldwide semiconductor consumption, and Fairchild's international reputation as a high technology company has enabled its subsidiaries to develop leading positions in European markets, particularly in the computer and industrial areas.

To take full advantage of the opportunities offered by the diverse European market, and to provide the most efficient service



Top, data logging station for the Siemens Trans Data 200 system uses Fairchild Macrologic devices for floppy disk data logging and data connections to large-scale computers. Center, gathered at Fairchild's European communications center in Paris are, left to right, Paul M. Cusick, director of finance and administration—Europe; Richard Dowd, administrator, MIS and telecommunications—Europe; E. Sartorius, French Telephone and Telegraph; and J. Leibrecht, directeur d'établissement du BTI. Bottom, left to right, Southern Europe general manager Roberto Stelanelli reviews product specifications with Alberto Arnevali, purchasing manager for Telettra, Vimerate, Italy.

to Fairchild's customers, each Semiconductor Products' overseas marketing region operates with a high degree of autonomy and is staffed by local nationals. Area general managers, their sales forces, and support staff are attuned to the cultural differences of conducting business in more than 20 European countries—all having different languages, currencies, and customs.

In addition, marketing centers in Europe, as well as the Far East and Latin America, are maintained by wholly-owned subsidiaries. Each national company is a separate legal corporation operated in accordance with Fairchild company policy and the regulations of the host country. Besides responsibility for sales, product marketing, technical marketing,



and customer service, each general manager's staff may handle the finance, data processing and industrial relations functions for the marketing area. With these centralized in each area, Fairchild is

Top, Siegfried Mack, Fairchild general manager for Central Europe. Center, the company's Test Systems training center for Europe is located in Munich, West Germany. Capable of thorough training in most of the company's test products, the center has graduated some 200 students in its first 9 months of operation. Bottom, Peter Turner, left, Fairchild general manager for Northern Europe, with Dr. C. Wilson, ICL managing director, at ICL computer center in Bracknell, England. The ICL 2950 uses Fairchild high-speed logic circuits, providing complex computing capability at reasonable cost.

equipped to respond quickly to changing market conditions and to provide efficient service to European customers.

Fairchild's Electronic Equipment operations in Europe are coordinated through subsidiary companies in England, France, Austria and Germany and include a training center opened last year in Munich. This sales network is supplemented by independent distributors and sales representative firms in several other major European countries. Fairchild systems continue to be the standard for automatic test equipment in European markets.

At the newly-established training center, European customers purchasing automatic semiconductor test systems receive training in system programming and maintenance. Center facilities are also used for general technical training seminars and customer presentations.

Sales operations for Government systems are handled by an internal marketing staff and those of the Industrial Products Division by a network of dealers.

Administrative headquarters for Fairchild Camera and Instrument Europe, Inc. is located in London and houses the financial and management information systems staffs. This operation provides assistance and makes recommendations to the company's European subsidiaries. The European center for the company's global logistics system is located in Paris. Launched in 1976, the system features a data communications network linking all Fairchild manufacturing and sales locations around the world.

In 1978, Fairchild announced the formation of a corporate joint venture with The General Electric Company, Ltd. of England to produce semiconductors in the United Kingdom. GEC-Fairchild Ltd., will produce N-Channel MOS products, including memories and microprocessors based on Fairchild technology, at a new manufacturing facility in Northwest England.



Top left, James McAllister, plant manager at the Kwun Tong plant in Hong Kong, checks diode piece part supplies. Assembly and testing for the majority of the diodes produced by Fairchild takes place in Hong Kong. Bottom left, high speed Beta assembly equipment processes components at Fairchild's large-scale-integration plant in Singapore. Right, assembly operations in Seoul, Korea.

Five manufacturing subsidiaries with approximately 630,000 square feet of production area and sales networks for both Semiconductor Products and Electronic Equipment comprise Fairchild's operations in the Far East.

Headquarters for Fairchild Camera and Instrument (Asia Pacific) Inc. is located in Hong Kong. This company provides assistance and makes recommendations to Fairchild's Far East subsidiary companies.

Semiconductor circuits and components are assembled at Fairchild's subsidiaries in Hong Kong, Korea, Singapore and Indonesia.

The Korea and Indonesia facilities are principally devoted to component and circuit assembly, with testing, finishing and final shipment taking place at Hong Kong and Singapore.

Far Eastern operations began at Fairchild Semiconductor (Hong Kong) Ltd. in 1962, near the site of the present eleven-story plant in Kwun Tong, Kowloon. A second Hong Kong plant located in the Tuen Mun, New Territories section, was acquired by Fairchild's Hong Kong subsidiary in 1976. Fairchild was the first U.S. electronics company to establish a subsidiary in Hong Kong, and is one of the city's largest employers.

All Semiconductor Products Far East assembly operations, as well as sales activities for Southeast Asia, are coordinated in Kwun Tong. While management personnel in field sales and for all five plants are primarily American, local nationals hold a significant number of manufacturing and sales management positions.

Hong Kong's Kwun Tong plant also houses testing, finishing, shipping and some assembly operations for Fairchild's Discrete Products Group and portions of the Integrated Circuits Group product line. The Optoelectronics Division's liquid crystal display (LCD) module manufacturing is housed in the new eleven-story Tuen Mun facility, with other semiconductor operations currently

expanding in that plant.

The company's Korean subsidiary, Fairchild Semiconductor Korea Ltd., performs assembly operations for some products of the Integrated Circuits Group divisions, as well as the Discrete Products Group line.

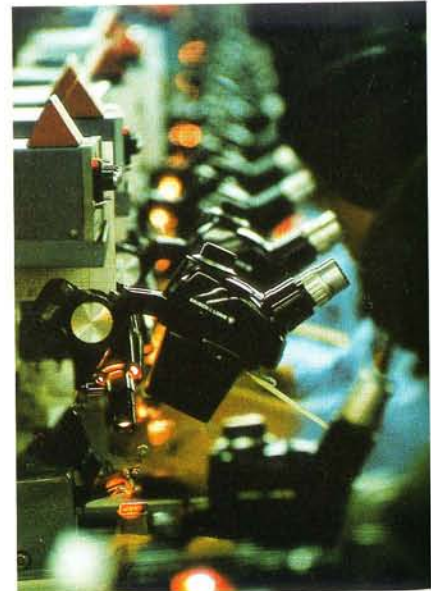
In 1967, Fairchild Korea was the first totally foreign-owned company to be established in that country. Assembly and administration occupy an 82,000-square-foot plant in the capital city of Seoul. Following Fairchild's lead, many major semiconductor manufacturers now operate plants in the Republic of Korea.

A five-building complex makes up Fairchild Singapore Pte. Ltd. The Singapore subsidiary is the company's large-scale-integration (LSI) assembly and test center, handling product lines from both the Bipolar LSI and MOS Products Groups.

Testing and finishing for most Integrated Circuit Group product lines is also performed at Singapore.

The Singapore manufacturing and test complex houses the largest installation of Beta (beam tape) automatic assembly equipment of any facility of Fairchild or its subsidiaries. Beta machines produce integrated circuits at extremely high speed, up to 40 times faster than by previous methods.

Fairchild's southernmost Far East manufacturing subsidiary is



P. T. Fairchild Semiconductor Indonesia, located in Jakarta, the capital city of the multi-island nation. Opened in 1974, operations moved into the current 114,000-square-foot plant in 1975. The building, which was the first pre-stressed concrete structure in Indonesia, houses assembly operations for Integrated Circuits Group products.

The Jakarta plant employs more than 3,500 people with all direct supervision performed by Indonesians. Plant management is directed by a relatively small group of expatriates together with local nationals. Training activities at P. T. Fairchild will make it possible for more Indonesians to move into management positions in the future.

Fairchild's Semiconductor Products Far East sales network is headquartered in Tokyo, Japan and Hong Kong. Marketing and sales functions for Japan and Korea are coordinated from Tokyo, with the countries of Southeast Asia handled through Hong Kong. Marketing and sales support personnel staff offices in seven countries. Southeast Asia operations are supplemented by sales representative firms in three additional countries.

Sales operations for the Test Systems Group of Electronic Equipment are conducted by Fairchild subsidiaries. These Far East operations are headquartered in Singapore, with offices planned for Hong Kong and Taipei, Taiwan. A test equipment training center is scheduled to open in Singapore in 1979.



Above, Robert Skurko, general manager for Semiconductor Products sales in Japan and Korea, checks in with his office on a 10-yen phone, which permits calls in a local area of Tokyo. Center, day shift employees leave Fairchild's plant in Jakarta, Indonesia. Here, as in many Far East locations, the company provides transportation. Bottom, part of the five-building Fairchild Singapore complex can be seen in the foreground.

™—Trademark of Fairchild Camera and Instrument Corporation.

®—Registered trademark of Fairchild Camera and Instrument Corporation.

| | 1978 | 1977 | 1976 | 1975 | 1974 |
|---|---------------------------------------|-----------|-----------|-----------|-----------|
| | (In thousands, except per share data) | | | | |
| Net sales | \$533,832 | \$460,108 | \$443,221 | \$291,542 | \$384,933 |
| Royalties and other income | 16,608 | 10,340 | 7,157 | 8,188 | 10,619 |
| | 550,440 | 470,448 | 450,378 | 299,730 | 395,552 |
| Cost of sales | 373,144 | 342,576 | 327,381 | 208,712 | 264,194 |
| Provision for discontinued product line | 5,932 | — | — | — | — |
| Administrative and selling expenses | 123,484 | 102,392 | 94,427 | 69,732 | 75,882 |
| Interest expense | 7,284 | 7,182 | 5,504 | 4,154 | 3,868 |
| | 509,844 | 452,150 | 427,312 | 282,598 | 343,944 |
| Income before income taxes and cumulative effect of change in accounting method | 40,596 | 18,298 | 23,066 | 17,132 | 51,608 |
| Provision for income taxes | 15,832 | 7,136 | 10,610 | 6,708 | 24,576 |
| Income before cumulative effect of change in accounting method | 24,764 | 11,162 | 12,456 | 10,424 | 27,032 |
| Cumulative effect on prior years (to December 29, 1974) of change in accounting method ⁽¹⁾ | — | — | — | 2,649 | — |
| Net income | \$ 24,764 | \$ 11,162 | \$ 12,456 | \$ 13,073 | \$ 27,032 |
| Per share of common stock: | | | | | |
| Income before change in accounting method | \$4.48 | \$2.06 | \$2.27 | \$1.94 | \$5.17 |
| Cumulative effect of change in accounting method ⁽¹⁾ | — | — | — | .51 | — |
| Net income | \$4.48 | \$2.06 | \$2.27 | \$2.45 | \$5.17 |
| Per share of common stock assuming full dilution: | | | | | |
| Income before change in accounting method | \$4.12 | \$2.01 | \$2.27 | \$1.94 | \$5.00 |
| Cumulative effect of change in accounting method ⁽¹⁾ | — | — | — | .47 | — |
| Net income | \$4.12 | \$2.01 | \$2.27 | \$2.41 | \$5.00 |
| Shares of common stock used to compute primary net income per share | 5,522 | 5,409 | 5,477 | 5,373 | 5,229 |
| Cash dividends per share | \$.80 | \$.80 | \$.80 | \$.80 | \$.75 |

(1) In 1974 and 1975, the Company adopted improvements in its inventory costing method. The effect of these changes in inventory costing was not material to income before cumulative effect of accounting change for 1974.

NOTE—See "Management's Discussion and Analysis of the Summary of Operations" on pages 18 and 19.

| | 1978 | 1977 | 1976 | 1975 | 1974 |
|--|------------------|-----------|-----------|-----------|-----------|
| <i>Selected Operating Data</i> (In thousands) | | | | | |
| Net sales to unaffiliated customers and other revenues by major product group: | | | | | |
| Semiconductor products | \$383,437 | \$321,404 | \$303,793 | \$231,437 | \$329,788 |
| Electronic equipment | 146,040 | 115,135 | 67,999 | 53,170 | 63,849 |
| Discontinued product line | 17,041 | 31,469 | 77,985 | 12,439 | — |
| Operating profit (loss) by major product group: | | | | | |
| Semiconductor products | 52,342 | 45,079 | 28,830 | 16,611 | 54,882 |
| Electronic equipment | 23,390 | 13,258 | 5,339 | 8,042 | 7,196 |
| Discontinued product line | (8,804) | (25,027) | 4,504 | 1,019 | — |
| Identifiable assets by major product group: | | | | | |
| Semiconductor products | 266,264 | 233,666 | 253,029 | 234,062 | 229,056 |
| Electronic equipment | 69,606 | 40,424 | 36,225 | 24,715 | 27,412 |
| Discontinued product line | 3,790 | 14,644 | 25,342 | 6,815 | — |
| Foreign sales | 182,407 | 141,814 | 138,466 | 82,732 | 113,574 |
| Royalty income | 10,784 | 7,506 | 6,373 | 4,766 | 7,312 |
| Research, development and engineering ⁽¹⁾ | 56,215 | 49,695 | 46,939 | 37,550 | 40,288 |
| Depreciation and amortization | 22,708 | 18,309 | 16,663 | 15,890 | 14,092 |
| Capital expenditures | 31,991 | 22,047 | 36,076 | 20,693 | 41,342 |
| <i>Financial Position at Year End</i> (In thousands) | | | | | |
| Cash and temporary cash investments | \$ 59,248 | \$ 43,041 | \$ 26,898 | \$ 25,194 | \$ 33,392 |
| Short-term borrowings | 19,497 | 8,812 | 13,618 | 9,455 | 6,819 |
| Working capital | 123,102 | 121,187 | 113,865 | 100,506 | 93,892 |
| Property, plant and equipment, net | 137,846 | 132,251 | 130,404 | 112,256 | 108,847 |
| Long-term debt, including current portion | 73,703 | 72,358 | 68,088 | 46,825 | 49,592 |
| Shareholders' equity | 205,916 | 184,865 | 177,609 | 166,329 | 153,875 |
| <i>Statistics and Key Ratios</i> | | | | | |
| Shares outstanding at year end | 5,391,701 | 5,371,471 | 5,359,552 | 5,278,563 | 5,161,592 |
| Number of shareholders at year end | 10,792 | 11,586 | 10,429 | 11,179 | 12,325 |
| Shareholders' equity per common share at year end | \$ 38.19 | \$ 34.42 | \$ 33.14 | \$ 31.51 | \$ 29.81 |
| Employees at year end | 25,939 | 19,893 | 21,293 | 17,405 | 18,092 |
| Net sales per employee (based on average number of employees) | \$ 22,980 | \$ 22,710 | \$ 22,100 | \$ 17,660 | \$ 17,650 |
| Backlog of orders at year end (In thousands) | \$294,000 | \$189,000 | \$147,000 | \$128,000 | \$161,000 |
| Income before change in accounting method as a percent of: | | | | | |
| Net sales | 4.6% | 2.4% | 2.8% | 3.6% | 7.0% |
| Shareholders' equity at year end | 12.0% | 6.0% | 7.0% | 6.3% | 17.6% |
| Current ratio at year end | 1.9 | 2.4 | 2.1 | 2.2 | 2.0 |
| Long-term debt to total capitalization at year end ⁽²⁾ | 26% | 28% | 28% | 22% | 24% |

(1) Stated in accordance with the definition expressed in Note 1 of the notes to consolidated financial statements. Amounts expressed include customer reimbursements.

(2) Total capitalization defined as the sum of long-term debt (including current portion) and shareholders' equity.

DIRECTORS

Wilfred J. Corrigan
*Chairman of the Board of
the Corporation, President
and Chief Executive Officer*

C. Lester Hogan
*Vice Chairman of the Board
of the Corporation*

Albert Bowers
*President, Syntex Corporation;
Vice Chairman of the Board,
Syntex Corporation
(pharmaceuticals and agribusiness)*

Walter Burke
*President, Director and Member of
Sherman Fairchild Foundation, Inc.*

Walter J. P. Curley
*Private Investor and Private
Venture Capital Operations*

William C. Franklin
Business Consultant

Roswell L. Gilpatric
*Counsel, law firm of
Cravath, Swaine & Moore*

Louis F. Polk, Jr.
*Chairman and Chief
Executive Officer,
Leisure Dynamics, Inc.
(hobby and game products)*

Alvin C. Rice
*Private Investor and
Member of Boards of
Tandem Computers Inc.,
and Memorex Corporation*

William A. Stenson
*Director, Santa Fe National
Bank and Surveyor Fund, Inc.*

OFFICERS

Wilfred J. Corrigan
*Chairman of the Board of the
Corporation, President and
Chief Executive Officer*

Corporate Staff
Warren J. Bowles
*Vice President—
Industrial Relations*

A. J. Hazle
Vice President—Finance

Frederick M. Hoar
*Vice President—
Corporate Communications*

Thomas A. Longo
*Vice President—
Chief Technical Officer*

Murray L. McLachlan
*Vice President—
Strategic Planning*

Nelson Stone
*Vice President—General
Counsel and Secretary*

James A. Unruh
*Vice President—Treasury
and Corporate Development*

Ronald J. Alessio
Treasurer

G. F. Taylor
Controller

Richard Franklin
Assistant Secretary

Wallace J. Thomas
Assistant Secretary

Stanley Winston
*Assistant Secretary
(attesting)*

Operations

Thomas A. Sherby
*Senior Vice President—
Systems and Equipment*

George D. Wells
*Senior Vice President—
Semiconductor Products*

Richard P. Abraham
*Vice President and
General Manager—
Bipolar LSI Group*

James D. Bowen
*Vice President and
General Manager—
Test Systems Group*

Edward H. Browder
*Vice President and
General Manager—
Integrated Circuits Group*

John A. Duffy, Jr.
*Vice President and
General Manager—
Discrete Products Group*

Raymond G. Hennessey
*Vice President—
Business Development,
Industrial Products Division*

David J. Marriott
*Vice President
Managing Director,
GEC-Fairchild Ltd.*

Louis H. Pighi
*Vice President and
General Manager—
Government and Industrial
Products Group*

Andrew A. Procassini
*Vice President—
Worldwide Semiconductor
Marketing*

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