SPRAGUE ELECTRIC COMPANY
Annual Report to Employees
THE NAME OF 
THE GAME IS 
COMPETITION

We live in a competitive world! Hardly a profound statement, but very true. Every day of our lives we compete as individuals and we compete as a company in the business world.

Competition in the electronics industry is intense. And the competitive pace is increasing with each passing year. How well Sprague Electric Company competes in the market place depends on each individual employee working with others to produce and sell the very best electronic components available.

The big plus in competition is a product's reliability. We are so conscious of this fact that our registered trademark states “SPRAGUE - The Mark of Reliability.”

As a Sprague employee are you constantly aware of competition? Do you strive to add that extra measure of effort each and every day? Take a moment to check the following questions. They're worth thinking about.

What Kind Of A Competitor Are You?

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Do you believe that Sprague Electric produces the best electronic components in the industry?</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Do you do your best each day to ensure that our products are worthy of the Sprague trademark?</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Do you think about your job and try to improve it whenever possible?</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Do you volunteer ideas and help to others and accept them in return?</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Are you preparing yourself for advancement through home study or classroom work?</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Do you put that little extra “something” into even routine jobs?</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Do you think of your job as being important in providing the best product available to our customers?</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Do you boost Sprague Electric and its products to your friends, neighbors and relatives?</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Do you always strive to serve the best interests of the Company?</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Do you consider yourself an asset to Sprague Electric Company?</td>
<td></td>
</tr>
</tbody>
</table>
Dear Sprague Employee,

The year 1968 was a difficult one for our Company and resulted in a net operating loss for the first time since 1932.

Net sales increased by a modest four per cent to $132,753,473 compared to $127,437,167 in 1967. The net loss for the year amounted to $2,829,596 or $.83 per share on the 3,403,011 shares outstanding at year end, compared to a net profit after taxes of $3,325,473, or $.98 per share on the 3,382,614 shares outstanding at December 31, 1967.

The net loss for the last quarter and the year arose largely from a yearend downward inventory adjustment after taxes of $2,316,305 in several of our product lines. Other factors accounting for the loss were poorer-than-expected demand for electronic components, due generally to continuing excessive inventories of components in the hands of our customers. This underbuying cycle appears to have run its course and we expect that future buying will more closely follow the actual rate of use.

Secondly, it became evident that over many years of profitable growth, fixed costs and expenses had gradually climbed to excessive levels, and finally, although our integrated circuit operations in Worcester showed significant progress toward profitability in 1968, this new plant did operate at a loss for the year.

In response to these factors, we initiated a drastic cost reduction program early in the year which has involved a complete review of all our expense operations. Savings already realized have only recently started to benefit our operating statements. The project will not be completed until mid-1969, but by that time reductions achieved by the program should be very substantial, and will provide continuing benefits in 1969 and future years.

Important administrative changes were made during the year. On November 12, 1968, in a major realignment of senior management, the Board of Directors elected Bruce R. Carlson as President succeeding Ernest L. Ward, who had served in this capacity since 1960. Mr. Ward was elected to the new position of Vice Chairman of the Board. The Board also established a new Executive Committee of which Neal W. Welch was elected Chairman. Mr. Welch had held the position of Executive Vice President since May 1967, and was previously Senior Vice President, Marketing and Sales. Other Board members named to the Executive Committee with Mr. Welch are: Mr. Carlson; Robert C. Sprague, Jr. and John L. Sprague, Senior Vice Presidents; and Joseph E. Erickson, former President of the Federal Reserve Bank in Boston.

On August 12, 1968, the Board of Directors elected Robert E. Armitage, formerly Assistant Treasurer, to be Treasurer of the Company. In addition, Louis R. Larson was elected to the new position of Controller, and both Donald B. Christiansen and Glenn A. Foss were elected Assistant Treasurers of the Company.

Effective January 1, 1969, William E. McLean, formerly Assistant to the Executive Vice President, was elected a Vice President, Operations.

Looking ahead to 1969, changing patterns in the demand for electronic components will call for accelerated product development programs. Meanwhile, we expect to realize very substantial benefits from our cost reduction programs and from our new organizational structure, with its decentralized operations. These factors, combined with an improved backlog position resulting from a higher rate of incoming orders, lead us to anticipate early resumption of our growth on a profitable basis.

After a period of considerable uncertainty and difficult circumstances, we are especially grateful for the continued loyal support and conscientious contributions of our employees.

Robert C. Sprague, Chairman of the Board

Bruce R. Carlson, President
Total 1968 Income amounted to $134,763,7...
40 and was used as follows:

Paid for materials, services and supplies......$62,304,586
Paid to employes........................................ 63,302,682
Paid for taxes.................................................. 3,984,565
Paid for interest on borrowed money......... 2,349,084
Paid in dividends to stockholders.............. 1,864,752
Provided for depreciation and amortization.. 5,652,419
Reduction of retained earnings Note 1............ (4,694,348)

*Net sales and other income of $2,010,267

Note 1. The reduction in retained earnings is mainly due to the net loss for the year in the amount of $2,829,596.
ADVERTISING
An Important
Corporate Function

Chances are you have never seen a Sprague Electric advertisement or probably even thought too much about our advertising efforts. But advertising is a most important corporate function and our ads appear in virtually every important electronic “trade” publication. Shown on the left is a small sampling of full page advertisements for various Sprague Electric products.

If you were employed by a company manufacturing consumer products, you would certainly be familiar with their advertising campaigns. However, Sprague Electric advertising is aimed at very specialized audiences and the ads themselves are designed to be read by these prospective customers in the business publications which reach them most effectively. These magazines and trade newspapers are not available on the newsstands, but are subscribed to by engineers, purchasing agents, quality control personnel, management people, and virtually all manufacturers who buy electronic components for their products. These include manufacturers of television sets, radios, refrigerators, air-conditioners and hi-fi and stereo equipment for just the consumer market as well as makers of computer, industrial, avionic, and military electronic gear.

The Corporate Advertising and Sales Promotion Department is headed by Sidney L. Chertok, Director of Advertising and Sales Promotion. His staff numbers some 25 people, including Technical Writers and Graphic Arts Specialists.

Publications advertising is prepared and placed by our advertising agency, The Harry P. Bridge Company of Philadelphia, working closely with Mr. Chertok and Marketing and Product Specialist personnel in various Company operations.

The Sprague-Bridge relationship is a unique one, dating back some 35 years. We were the Bridge Company’s second account and are presently the oldest client in their shop. John Brent, the Bridge Electronics Group Vice-President and Senior Account Representative for Sprague Electric, is a former member of the Sprague team, serving for nine and a half years as Assistant Advertising Manager.

Most of our trade publication advertising is product oriented as you can see from the illustration. We have helped build our corporate image as “the broad-line producer of electronic parts” through this program as well as by a substantial and continuing flow of engineering bulletins on our products and technical papers on new developments in the field. These bulletins are prepared in cooperation with Marketing, Engineering and QAR personnel, and distributed to our customers’ engineering and purchasing personnel via an integral mailing house operation in the department.

Advertising and Sales Promotion functions for the Sprague Products Company, our distributor’s supply subsidiary; for Dearborn Electronics, Inc., our film capacitor specialist subsidiary; and for Micro Tech Mfg., Inc., our subsidiary in the semiconductor manufacturing equipment field. Mailing lists for our new affiliate, Pirgo Electronics, Inc., are also handled by the advertising group.
Despite the difficulties encountered during 1968, the Company made a number of major strides, a few of which deserve special mention.

Aluminum electrolytic capacitors have traditionally accounted for a large segment of Sprague Electric's total business. The use of aluminum capacitors in tube-type entertainment electronic equipment continues to increase. This type of capacitor is also widely used in solid-state circuits of all types; indeed, it is the family in the passive components industry showing the largest projected growth over the next five year period. Equipment was developed for manufacturing a new type of miniature aluminum electrolytic capacitor expected to find substantial markets in 1969.

We recorded a sharp increase in our share of the computer aluminum electrolytic capacitor market in 1968, and additional manufacturing equipment was added to enhance our participation in this growing market.

In the field of tantalum electrolytic capacitors, improvements in the design and processing of the solid electrolyte type, originated by Sprague Electric, permitted the production of units containing less of the expensive tantalum metal for a given rating. Coordinated efforts in the area of manufacturing-yield improvement and the installation of automatic processing equipment resulted in substantial cost reductions in this line by the end of 1968.

In those areas of our ceramic product line having the highest unit price and technology, Sprague Electric strengthened its position and laid the groundwork for continued future growth. Techniques developed for producing our METANET® Precision Resistor-capacitor Networks for the computer industry, consisting of a metal film resistor network on a ceramic substrate, found increasing use in hybrid circuits. In the ceramic capacitor area, two new manufacturing processes were engineered and introduced into production during the year. These will be especially beneficial in the production of MONOLITHIC® Ceramic Capacitors and other multilayer devices by making possible increased versatility and lower costs.

In order to accommodate these new developments, the Company has retooled certain processes and expanded its ceramic facilities. The most notable expansion was the completion of a modern 72,000 square foot plant in Wichita Falls, Texas, for the sole purpose of manufacturing MONOLITHIC® type capacitors and thick film resistor-capacitor networks of the METANET® variety.

In the paper and film dielectric capacitor field, development emphasis has been shifted from the highly competitive small paper and film capacitors to the more sophisticated and higher priced industrial and military units. In addition, considerable development effort during the year was devoted to a new line of a-c power-handling capacitors, an area in which Sprague Electric has experienced continued sales growth for the past five years, and a field in which no competition is expected from integrated circuits.

As a component manufacturer with a very broad base of technology, the Company recognizes the need to continue to capitalize on many opportunities which are available worldwide and thus has adopted an international concept of component manufacture.
We CARE

When the first astronauts land on the moon later this year, Sprague Electric employees can take special pride in the fact that many of the vital parts for the Apollo, Saturn V and Lunar Module (LM) were produced at various Sprague locations.

Sprague Electric is a major supplier of flight critical components and established its CARE (Constant Achievement of Reliability Excellence) program to make all employees aware that the safety of astronauts in their journey to and from the moon is dependent on our critical attention to our manufacturing processes.

Although all of us working on these components in our own product lines are aware of the items being produced, not all of us know what the Sprague Electric Company has undertaken for the entire NASA program and Saturn V.

Did you know, for example, that our Beaver Street plant manufactures various 118Ps, 195Ps, 501Ps, 502Ps, 503Ps, 504Ps, and 505Ps? that Brown Street manufactures a special pulse network and a special 271P? Marshall Street produces filters, 109D, 330D, 309D, 113D, and 380D capacitors? Union Street produces the TANTAPAK series of capacitors and pulse transformers?

From our branch plants the following components are obtained: Concord and Plymouth - solid tantalums, 350Ds, 176Ds, 160Ds and 150Ds; Nashua - 3cs and 4cs ceramics, resistor networks, the 250 series of vitreous enamel resistors and metal film resistors; from Worcester - microcircuitry and hybrid circuitry; from Rockville - memory cords; and from Vandalia, Visalia and Annapolis Junction - various other filters.

Dr. Wernher von Braun, Director of the Marshall Space Flight Center, in a statement directed to all who contributed to the program said, “The safety of our astronauts is in your hands. Underlying all Apollo Saturn objectives is the concern for astronaut safety. Each individual who contributes in any way to these objectives shares equally in this concern.”

We do CARE!