

Kirk Pond, left, will lead Fairchild. Brian Halla, right, is CEO of National Semiconductor.



Semi letting go of a legend

■ **Fairchild:** Historic chip maker will move headquarters to Maine

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Fairchild Semiconductor, the company that spawned Silicon Valley's world renowned chip industry, will be back on its own again after a spinoff announced Monday by National Semiconductor Corp.

But the company that helped put this region on the map will relocate its headquarters to the East Coast.

National Semiconductor said it will sell majority ownership of Fairchild to an investment group made up of Fairchild's current managers and a unit of Citicorp Venture Capital Ltd., the New York bank's investment arm, in a deal valued at \$550 million. National bought Fairchild in 1987 for \$122 million.

Citicorp Venture's purchase comes a decade after it first expressed interest in taking over Fairchild in a leveraged buyout bid that was bested by National.

National had announced last June that it planned to spin off the Fairchild division, whose revenues account for about a quarter of National's annual sales of \$2.6 billion.

Of the \$550 million Fairchild sales price, \$460 million cash will go to National when the deal closes in May. National will retain 16% ownership of Fairchild. While some operations will remain in Silicon Valley, Fairchild's new head office will be in South Portland, Maine.

For National, the move is another step toward cementing Chief Executive Officer Brian Halla's plan to focus the Santa Clara company

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Fairchild back on its own

The granddaddy of Silicon Valley's chip industry is being spun off by National Semiconductor. The company will be based in South Portland, Maine.

1947: William Shockley, a scientist at AT&T Laboratories in New Jersey, invents the transistor.

1955: Shockley, a native of Palo Alto, starts Shockley Semiconductor Laboratories in his home town.

1957: A group of young engineers at Shockley Semiconductor Laboratories, dubbed the "Traitorous Eight" by Shockley, jump ship and form their own company, Fairchild Semiconductor, with backing from Fairchild Camera & Instrument Corp. of Syosset, N.Y.

1958: Fairchild Camera exercises its option to buy Fairchild Semiconductor, making it into a division of the parent company, with co-founder Robert Noyce in charge. Noyce, at about this time, is credited with co-inventing the integrated circuit.

1967: Charles Sporck, Fairchild Semiconductor's general manager, quits to launch National Semiconductor.

1968: Noyce, along with colleagues Gordon Moore and Andrew Grove, resign to start Intel Corp.

1969: W. J. "Jerry" Sanders is fired by Noyce's successor and starts Advanced Micro Devices.

1974: Wilfred Corrigan becomes president of Fairchild Semiconductor; he later departs to found LSI Logic Corp.

1979: Schlumberger Ltd., a French oil services company, buys Fairchild for \$352 million.

1987: After the Reagan administration balked at a planned sale to Fujitsu, Schlumberger sells money-losing Fairchild Semiconductor to National Semiconductor for \$122 million. National stops using the Fairchild brand name.

1996: National Semiconductor announces plans to spin off part of its operations into a new independent company to be called Fairchild Semiconductor, with 6,500 employees and headquarters in South Portland, Maine.

1997: National completes deal to sell Fairchild to investor group headed by Fairchild's management

Sources: The companies;
Mercury News reports

National Semiconductor to spin off Fairchild

■ FAIRCHILD

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on its successful line of telecommunications-related semiconductors — versatile chips that perform critical tasks like changing sound to data in cellular phone networks. Halla arrived at National last May as a replacement for Gilbert Amelio, who left to take charge of Apple Computer Inc.

Fairchild's business is logic chips, which are key electrical components found in everything from toasters to cars. The chips are essential, but the market is very competitive, and profit margins are slimmer than in National's mainstream business.

"This was a savvy move on Brian Halla's part," said Mark Edelman of Prudential Securities in San Francisco. "It's great for National because it eliminates the lower-margin, cyclical business, and allows the company to accelerate its long-term growth rate."

The thin profit margins in Fairchild's business, however, raise questions about whether the company can regain the prominence it once held.

Fairchild will start its independent life with somewhat of a leg up. It will have not just the injec-

tion of capital from Citibank, but it also starts out with 50,000 customers worldwide and a workforce of 6,400 people previously employed by National. As of last summer, National said the Fairchild unit had been profitable.

"Fairchild can still do well," said Krishna Shankar, an analyst with Donaldson Lufkin & Jenrette in San Francisco. "A lot depends on how well they execute their business plan . . . and keep manufacturing costs down, and then invest in newer products."

Kirk Pond, former chief operating officer at National, will hold the top position at Fairchild.

"Our business model is different from National," Pond said. "Yes, we will have lower gross profits to start, but we also have lower overhead, lower research and development costs and better cash flow. Now we can pursue our own growth."

Pond said the new owners may consider taking the company public in a few years, "depending on how well we do."

That would be another odd twist to Fairchild's tumultuous past. The company began in 1957 when a renegade group of eight executives left Shockley Laboratories in Palo Alto.

Fairchild became a hotbed of

innovation and was the home of Robert Noyce when, in the late 1950s, he conducted research that led to the integrated circuit, which combined the functions of many transistors onto a single sliver of silicon.

Disillusioned with management, Noyce and Gordon Moore left Fairchild in 1968 to found Intel Corp. They were only two of the many famous "Fairchildren" who helped start such Silicon Valley stalwarts as LSI Logic Corp. and Advanced Micro Devices Inc. — and even National Semiconductor.

For 20 years — from the late 1950s to the late 1970s — Fairchild Semiconductor was a unit of Fairchild Camera & Instrument Corp. What had once been a Silicon Valley beacon deteriorated badly, and in 1979 a French oil-services company bought the chip maker for \$352 million.

Fairchild continued to struggle and during the U.S. chip industry's downturn of the mid-1980s, it was on the verge of being sold to Japan's Fujitsu Ltd. Outrage from Washington quashed that deal, and it was then that National picked up Fairchild at a firesale price. One of the other parties interested in Fairchild at the time was an investment group assembled by Fairchild President Donald Brooks and funded by Citicorp Venture Capital.

Fairchild's new headquarters in Maine will be located near one of its larger chip manufacturing plants, a state-of-the-art facility owned by National. Pond said there was no slight intended in leaving Silicon Valley, but that the new company's core customer

base is closer to the East Coast, and that many of the new managers were already located there.

Pond is the third member of what had been Amelio's triumvirate to leave National.

Analysts said Halla will be under pressure to raise the prospects of National, which suffered in 1996 because of the worldwide slump in semiconductor demand and prices.

"I like being in the position of proving ourselves to the world. I seem to move from one 'I-dare-you-to-perform' challenge to the next," Halla said. "The world is waiting to see if we make good on our commitments."

The stock market gave National an apparent seal of approval for the Fairchild divestiture. National stock closed up 7 percent — \$1.75 — at \$26.63 a share.