



Cover: Rubylith artwork of a complex MOS/LSI array, 200 times the size of the eventual product, is closely examined before moving to the next production stage. This artwork was created in Fairchild's Computer-Aided Design facility, which now completes a circuit design about every other working day.

## Three-Year Highlights

	1970	1969	1968
<b>For the year:</b>			
Net sales	\$219,138,000	\$250,659,000	\$198,470,000
Income (loss) from continuing operations	(19,309,000)	985,000	(3,493,000)
(Losses) from discontinued operations	—	—	(832,000)
Income (loss) before extraordinary items	(19,309,000)	985,000	(4,325,000)
Extraordinary items	—	1,711,000	4,898,000
Net income (loss)	(19,309,000)	2,696,000	573,000
Dividends paid	—	2,188,000	2,169,000
Average number of shares outstanding	4,385,715	4,363,192	4,327,578
<b>End of year:</b>			
Working capital	\$ 49,115,000	\$ 75,545,000	\$ 57,257,000
Shareholders' equity	65,619,000	84,794,000	83,496,000
Number of employees	14,074	23,125	20,867
Number of shareholders	15,795	11,381	13,736
Shares issued	4,387,620	4,376,373	4,348,221
<b>Per share statistics:</b>			
Income (loss) from continuing operations	\$ (4.40)	\$ .23	\$ (.81)
(Losses) from discontinued operations	—	—	(.19)
Income (loss) before extraordinary items	(4.40)	.23	(1.00)
Extraordinary items	—	.39	1.13
Net income (loss)	(4.40)	.62	.13
Shareholders' equity	14.96	19.38	19.20





## To Our Shareholders:

After a record first quarter, 1970 turned into a year of pronounced adversity for Fairchild Camera. The company's problems were a reflection of the general business downturn, whose impact on the electronics industry has been particularly sharp. In April, the recession hit our major semiconductor markets with sudden force, and volume continued to decline at a rate exceeding all expectations. The speed and severity of this decline caused the company to operate unprofitably during the remainder of 1970.

Despite these setbacks, we believe the company's positive achievements last year will contribute to renewed growth when the current economic trials are behind us.

The company in 1970 sustained a net loss of \$19,309,000, or \$4.40 per share, as compared to a profit, excluding extraordinary items, of \$985,000, or 23 cents per share, in 1969. Sales totalled \$219,138,000, as compared to \$250,659,000 for the previous 12 months.

Sales of all operating units of the company suffered from the business slowdown. The decline in unit volume was further aggravated by a steep drop in the prices of semiconductor products. These combined negative pressures came to bear on Fairchild at a time when the company was particularly vulnerable. We were completing a \$56-million rebuilding program, the most massive capital improvement effort we had ever undertaken, and concurrently investing heavily in new product development throughout the company.

When the first clear evidence of a sales decline appeared, management began a corporate-wide program of cost reduction. We resolved, however, to finish the factory modernization program on schedule because of its importance to our future competitive position. As the downward trend in sales persisted, progressively more stringent cost reduction measures were implemented. We were unable to reduce expense levels rapidly enough to compensate for the decline, and the corporation operated at a loss for the last three quarters of the year.

Management took action to assure the company's continuing liquidity in the face of these losses. The steps included a decrease in capital expenditures from a planned \$35 million to \$24 million, a worldwide cut in personnel from 23,000 to 14,000, and salary reductions applied to most of the domestic work force for a four-month period beginning in November. The 1970 dividend also was omitted.

Late in the year the company sold for cash the Controls division, a small operating unit. Two of the division's product lines, which are aligned with the corporation's long-range objectives, were retained.

Research and development expenditures were cut from a planned \$27 million to \$22 million, primarily through a reorganization to achieve greater productivity from this key function. It is significant that, despite such cost reductions, the company expects to introduce more new semiconductor products in 1971 than in any single previous year.

An R&D program of relevance to the growing semiconductor memory market culminated in early 1971 with our announcement of a new and advanced concept in bipolar device structure. While its commercial significance has not been assessed, the processing technique — designated Isoplanar — makes possible a 40 percent reduction in the size of bipolar, digital integrated circuits. This permits such circuits to attain the packing density of metal-oxide-semiconductor (MOS) devices while retaining the inherent speed advantages of the bipolar technology.

The company also brought to the pilot stage a new integrated-circuit production technique, designated Unibond. This high-speed process



mechanizes wire-bonding operations, the primary source of labor cost in semiconductor assembly.

The successful completion of our domestic factory modernization program in 1970 has given the company a production capability which compares favorably with any in the semiconductor industry. Fairchild also commenced production in its newly-constructed plant in Wiesbaden, Germany, to support the company's penetration of the European semiconductor market.


Among the new products introduced during the year were more than 150 semiconductor circuits, and nearly 30 microwave and optoelectronic devices. Exceptional progress also was made in MOS/LSI technology, a new and fast growing segment of the industry. Other product and technical advances include a line of electronic keyboards for typesetter and computer input applications, an expanded line of audio/visual projectors, an electro-optical solid-state camera, a lunar mapping camera, and computerized systems to monitor electronic pollution of the air waves.

Early in 1971, the company received a tribute connected with its semiconductor assembly plant on the Navajo Indian Reservation in Shiprock, New Mexico. *Business Week* magazine selected plant manager Paul W. Driscoll for its annual Exceptional Leadership Award.

The company's financial condition remains sound. At year's end working capital was \$49,115,000, and the current ratio was 2.4 to 1. Domestic short-term debt had been reduced from a high of \$7.5 million to zero at the end of the year, although the company anticipates future borrowings against its current \$25-million line of domestic bank credit. Overseas operations are supported by additional short-term financing from abroad.

In assessing the company's long-range prospects, we remain convinced that the electronics industry will resume its previous high rate of growth. Some indicators currently point to a slightly improved trend in the semiconductor field. It is our belief that this field has undiminished potential for expansion, through new applications and the demands of an advancing technology.

Fairchild Camera has outstanding facilities and personnel. As the economic environment improves, we feel the company will be in a position to capitalize fully on both the recovery and the future growth.



C. Lester Hogan  
President and Chief Executive Officer

March 26, 1971

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