SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

September 9, 2003
Date of report (Date of earliest event reported)

ON Semiconductor Corporation

(Exact name of registrant as specified in its charter)

Delaware	000-30419	36-3840979
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification Number)

ON Semiconductor Corporation 5005 E. McDowell Road Phoenix, Arizona	85008
(Address of principal executive offices)	(Zip Code)

602-244-6600
(Registrant's telephone number, including area code)

Item 5. Other Events

Attached to this Current Report as Exhibit 99.1 is an updated “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of ON Semiconductor Corporation covering the years ended December 31, 2000, 2001 and 2002 and the six month periods ended June 28, 2002 and July 4, 2003, which reflects the consolidation of our investment in Leshan-Phoenix Semiconductor Company Limited. For those periods prior to the six month period ended July 4, 2003, information included therein has been revised to reflect such consolidation for comparative purposes, as permitted by FASB Interpretation No. 46 and is being provided in this Current Report for information purposes.

Attached to this Current Report as Exhibit 99.2 are the audited consolidated financial statements (and related notes) of ON Semiconductor Corporation as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including the related report of the independent auditors of ON Semiconductor Corporation), which reflect the consolidation of our investment in Leshan-Phoenix Semiconductor Company Limited. Such information has been revised to reflect such consolidation for comparative purposes, as permitted by FASB Interpretation No. 46 and is being provided in this Current Report for information purposes.

Attached to this Current Report as Exhibit 99.3 are the unaudited interim consolidated financial statements (and related notes) of ON Semiconductor Corporation as of December 31, 2002 and April 4, 2003 and for the quarters ended March 29, 2002 and April 4, 2003, which reflect the consolidation of our investment in Leshan-Phoenix Semiconductor Company Limited. Such information has been revised to reflect such consolidation for comparative purposes, as permitted by FASB Interpretation No. 46 and is being provided in this Current Report for information purposes.

Attached to this Current Report as Exhibit 99.4 are the audited consolidated financial statements (and related notes) of Semiconductor Components Industries, LLC, a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including related reports of the management and the independent auditors of Semiconductor Components Industries, LLC), and the unaudited interim consolidated financial statements (and related notes) of Semiconductor Components Industries, LLC as of and for the six months ended July 4, 2003.

Attached to this Current Report as Exhibit 99.5 are the audited consolidated financial statements (and related notes) of ON Semiconductor Trading, LTD., a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002, for the period from October 27, 2000 through December 31, 2000 and for the years ended December 31, 2001 and 2002 (including related reports of the management and the independent auditors of ON Semiconductor Trading, LTD.), and the unaudited interim consolidated financial statements (and related notes) of ON Semiconductor Trading, LTD. as of and for the six months ended July 4, 2003.

Attached to this Current Report as Exhibit 99.6 are the audited consolidated financial statements (and related notes) of SCG Malaysia Holdings Sdn. Bhd., a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including related reports of the management and the independent auditors of SCG Malaysia Holdings Sdn. Bhd.), and the unaudited interim consolidated financial statements (and related notes) of SCG Malaysia Holdings Sdn. Bhd. as of and for the six months ended July 4, 2003.

Attached to this Current Report as Exhibit 99.7 are the audited financial statements (and related notes) of SCG Philippines, Incorporated, a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including related reports of the management and the independent auditors of SCG Philippines, Incorporated), and the unaudited interim financial statements (and related notes) of SCG Philippines, Incorporated as of and for the six months ended July 4, 2003.

Attached to this Current Report as Exhibit 99.8 is a consent of ON Semiconductor Corporation’s Independent Accountants.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Businesses Acquired.
Not applicable.

(b) Pro Forma Financial Information.
Not applicable.

(c) Exhibits

Exhibit No.	Description
99.1	An updated “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of ON Semiconductor Corporation covering the years ended December 31, 2000, 2001 and 2002 and the six month periods ended June 28, 2002 and July 4, 2003, which reflects the consolidation of our investment in Leshan-Phoenix Semiconductor Company Limited (for those periods prior to the six month period ended July 4, 2003, information included therein has been revised to reflect such consolidation for comparative purposes, as permitted by FASB Interpretation No. 46 and is being provided in this Current Report for information purposes).
99.2	Audited consolidated financial statements (and related notes) of ON Semiconductor Corporation as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including the related report of the independent auditors of ON Semiconductor Corporation), which reflect the consolidation of our investment in Leshan-Phoenix Semiconductor Company Limited (such information has been revised to reflect such consolidation for comparative purposes, as permitted by FASB Interpretation No. 46 and is being provided in this Current Report for information purposes).
99.3	Unaudited interim consolidated financial statements (and related notes) of ON Semiconductor Corporation as of December 31, 2002 and April 4, 2003 and for the quarters ended March 29, 2002 and April 4, 2003, which reflect the consolidation of our investment in Leshan-Phoenix Semiconductor Company Limited (such information has been revised to reflect such consolidation for comparative purposes, as permitted by FASB Interpretation No. 46 and is being provided in this Current Report for information purposes).
99.4	Audited consolidated financial statements (and related notes) of Semiconductor Components Industries, LLC, a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including related reports of the management and the independent auditors of Semiconductor Components Industries, LLC), and unaudited interim consolidated financial statements (and related notes) of Semiconductor Components Industries, LLC as of and for the six months ended July 4, 2003.
99.5	Audited consolidated financial statements (and related notes) of ON Semiconductor Trading, LTD., a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002, for the period from October 27, 2000 through December 31, 2000 and for the years ended December 31, 2001 and 2002 (including related reports of the management and the independent auditors of ON Semiconductor Trading, LTD.), and unaudited interim consolidated financial statements (and related notes) of ON Semiconductor Trading, LTD. as of and for the six months ended July 4, 2003.
99.6	Audited consolidated financial statements (and related notes) of SCG Malaysia Holdings Sdn. Bhd., a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including related reports of the management and the independent auditors of SCG Malaysia Holdings Sdn. Bhd.), and unaudited interim consolidated financial statements (and related notes) of SCG Malaysia Holdings Sdn. Bhd. as of and for the six months ended July 4, 2003.
99.7	Audited financial statements (and related notes) of SCG Philippines, Incorporated, a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including related reports of the management and the independent auditors of SCG Philippines, Incorporated), and unaudited interim financial statements (and related notes) of SCG Philippines, Incorporated as of and for the six months ended July 4, 2003.
99.8	Consent of Independent Accountants.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: September 9, 2003	ON SEMICONDUCTOR CORPORATION (Registrant)
	By: /s/ DONALD COLVIN
	Donald Colvin **Chief Financial Officer**

EXHIBIT INDEX

Exhibit No.	Description
99.1	An updated "Management's Discussion and Analysis of Financial Condition and Results of Operations" of ON Semiconductor Corporation covering the years ended December 31, 2000, 2001 and 2002 and the six month periods ended June 28, 2002 and July 4, 2003, which reflects the consolidation of our investment in Leshan-Phoenix Semiconductor Company Limited (for those periods prior to the six month period ended July 4, 2003, information included therein has been revised to reflect such consolidation for comparative purposes, as permitted by FASB Interpretation No. 46 and is being provided in this Current Report for information purposes).
99.2	Audited consolidated financial statements (and related notes) of ON Semiconductor Corporation as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including the related report of the independent auditors of ON Semiconductor Corporation), which reflect the consolidation of our investment in Leshan-Phoenix Semiconductor Company Limited (such information has been revised to reflect such consolidation for comparative purposes, as permitted by FASB Interpretation No. 46 and is being provided in this Current Report for information purposes).
99.3	Unaudited interim consolidated financial statements (and related notes) of ON Semiconductor Corporation as of December 31, 2002 and April 4, 2003 and for the quarters ended March 29, 2002 and April 4, 2003, which reflect the consolidation of our investment in Leshan-Phoenix Semiconductor Company Limited (such information has been revised to reflect such consolidation for comparative purposes, as permitted by FASB Interpretation No. 46 and is being provided in this Current Report for information purposes).
99.4	Audited consolidated financial statements (and related notes) of Semiconductor Components Industries, LLC, a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including related reports of the management and the independent auditors of Semiconductor Components Industries, LLC), and unaudited interim consolidated financial statements (and related notes) of Semiconductor Components Industries, LLC as of and for the six months ended July 4, 2003.
99.5	Audited consolidated financial statements (and related notes) of ON Semiconductor Trading, LTD., a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002, for the period from October 27, 2000 through December 31, 2000 and for the years ended December 31, 2001 and 2002 (including related reports of the management and the independent auditors of ON Semiconductor Trading, LTD.), and unaudited interim consolidated financial statements (and related notes) of ON Semiconductor Trading, LTD. as of and for the six months ended July 4, 2003.
99.6	Audited consolidated financial statements (and related notes) of SCG Malaysia Holdings Sdn. Bhd., a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including related reports of the management and the independent auditors of SCG Malaysia Holdings Sdn. Bhd.), and unaudited interim consolidated financial statements (and related notes) of SCG Malaysia Holdings Sdn. Bhd. as of and for the six months ended July 4, 2003.
99.7	Audited financial statements (and related notes) of SCG Philippines, Incorporated, a wholly-owned subsidiary of ON Semiconductor Corporation, as of December 31, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002 (including related reports of the management and the independent auditors of SCG Philippines, Incorporated), and unaudited interim financial statements (and related notes) of SCG Philippines, Incorporated as of and for the six months ended July 4, 2003.
99.8	Consent of Independent Accountants.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our audited consolidated financial statements and related notes thereto included elsewhere in this report and our unaudited interim consolidated financial statements and related notes thereto included in our Quarterly Report on Form 10-Q for the quarter ended July 4, 2003.

All historical financial statements, amounts and disclosures have been revised to reflect the consolidation of Leshan-Phoenix Semiconductor Company Limited ("Leshan") as discussed in "—Summary of Recent Developments" herein.

Overview

We are a global supplier of power and data management semiconductors and standard semiconductor components. We design, manufacture and market an extensive portfolio of semiconductor components that addresses the design needs of sophisticated electronic systems and products. Our power management semiconductor components distribute and monitor the supply of power to the different elements within a wide variety of electronic devices. Our data management semiconductor components provide high-performance clock management and data flow management for precision computing and communications systems. Our standard semiconductor components serve as "building block" components within virtually all electronic devices.

Immediately prior to our August 4, 1999 recapitalization, we were a wholly-owned subsidiary of Motorola, Inc. We held and continue to hold, through direct and indirect subsidiaries and a joint venture, substantially all of the assets and operations of the Semiconductor Components Group of Motorola's Semiconductor Products Sector. As a result of the recapitalization, an affiliate of Texas Pacific Group owned approximately 91% and Motorola owned approximately 9% of our outstanding common stock. In addition, as part of the recapitalization, Texas Pacific Group received 1,500 shares and Motorola received 590 shares of the Company's mandatorily redeemable preferred stock with a liquidation value of $209.0 million plus accrued and unpaid dividends. Motorola also received a $91.0 million junior subordinated note due 2011 issued by Semiconductor Components Industries, LLC, our primary domestic operating subsidiary. Cash payments to Motorola in connection with the recapitalization were financed through equity investments by affiliates of Texas Pacific Group totaling $337.5 million, borrowings totaling $740.5 million under our $875.0 million senior bank facilities and the issuance of $400.0 million of 12% senior subordinated notes due August 2009. Because Texas Pacific Group's affiliate did not acquire substantially all of our common stock, the recapitalization did not impact the basis of our assets and liabilities for financial reporting purposes. At the time of the recapitalization, Motorola agreed to provide us with transition and manufacturing services in order to facilitate our transition to a stand-alone company independent of Motorola.

On April 3, 2000, we acquired all of the outstanding capital stock of Cherry Semiconductor Corporation for $253.2 million in cash (including acquisition related costs), which we financed with cash on hand and borrowings of $220.0 million under our senior bank facilities. Cherry Semiconductor Corporation, which we have renamed Semiconductor Components Industries of Rhode Island, Inc., designs and manufactures analog and mixed signal integrated circuits for the power management and automotive markets. (See Note 6 "Acquisition" of the notes to our audited consolidated financial statements and " —Other Recent Events —Acquisition," in each case included elsewhere in this report.)

On May 3, 2000, we completed the initial public offering of our common stock, selling 34.5 million shares with an issue price of $16 per share. Net proceeds from the initial public offering (after deducting issuance costs) were approximately $514.8 million. The net proceeds were used to redeem all outstanding preferred stock (including accrued dividends), redeem a portion of the senior subordinated notes and prepay a portion of the loans outstanding under the senior bank facilities. (See Note 12 "Common Stock" of the notes to our audited consolidated financial statements elsewhere in this report.)

On September 7, 2001, we obtained $100.0 million ($99.2 million, net of issuance costs) through an equity investment by an affiliate of Texas Pacific Group, our principal shareholder. In this transaction, we issued

10,000 shares of mandatorily redeemable cumulative convertible preferred stock. This investment was required because we were not in compliance with certain minimum interest expense coverage ratio and leverage ratio covenants under our senior bank facilities. (See Note 9 “Long-Term Debt” and Note 11 “Redeemable Preferred Stock” of the notes to our audited consolidated financial statements and “ —Liquidity and Capital Resources—Key Events Affecting Our Capital Structure,” in each case included elsewhere in this report).

Summary of Recent Developments

The following section highlights significant recent developments in our financial performance, our marketplace and our liquidity and capital structure. For further information regarding the events summarized herein, you should read “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in its entirety.

Semiconductor Market Performance

The following table sets forth total worldwide semiconductor industry revenues and revenues in our total addressable market for the last three years:

Year Ended December 31,	Total Worldwide Semiconductor Industry Sales(1)	% Change	Total Addressable Market Sales(1)(2)	% Change
	(in billions)		(in billions)	
2000	$ 204.4		$ 28.2	
2001	139.0	(32.0)%	19.8	(29.8)%
2002	140.7	1.2	20.3	2.5

(1) Based on shipment information published by World Semiconductor Trade Statistics (“WSTS”), an industry research firm. WSTS collects this information based on product shipments, which is different from our revenue recognition policy as described in “Critical Accounting Policies—Revenue Recognition” contained elsewhere in this report. We believe the data provided by WSTS is reliable, but we have not independently verified it. WSTS periodically revises their information. We assume no obligation to update such information.

(2) Our total addressable market comprises the following specific WSTS product categories: (a) discrete products (all discrete semiconductors other than sensors, RF and microwave power transistors/modules, RF and microwave diodes, RF and microwave SS transistors, power FET modules, IGBT modules and optoelectronics); (b) analog products (amplifiers, voltage regulators and references, comparators, ASSP automotive and ASSP industrial and others); and (c) standard logic products (MOS general purpose logic only). Although we categorize our products as power and data management semiconductors and standard semiconductor components, WSTS uses different product categories. We recently revised how we categorize our total addressable market to eliminate certain WSTS product categories in which we no longer participate as of January 1, 2003. The information regarding our total addressable market for all periods presented in this report reflects such revision.

Worldwide semiconductor market sales were $140.7 billion in 2002 and $74.0 billion in the first six months of 2003, including sales in our total addressable market of approximately $20.3 billion and $11.0 billion, respectively. In 2002, industry sales and sales in our total addressable market increased 1.2% and 2.5%, respectively, as compared to 2001. The industry is cyclical, and from 2000 to 2001 industry sales and sales in our total addressable market declined 32.0% from $204.4 billion to $139.0 billion and 29.8% from $28.2 billion to $19.8 billion, respectively. The foregoing information is based on information published by WSTS. The year 2001 was the worst single year downturn in industry history and was driven both by reduced volumes and lower average selling prices resulting from an inventory overbuild as well as excess semiconductor manufacturing capacity. This is in contrast to 2000, when industry sales and sales in our total addressable market grew 37% and

34%, respectively. Although semiconductor demand began to improve in 2002 and has continued to improve in the first six months of 2003, it is uncertain when any meaningful recovery will occur. Current market conditions are characterized by excess capacity, short lead times and significant pricing pressures, particularly in a number of product lines in which we participate.

ON Financial Performance

Revenues. The following table sets forth our total revenues for the years ended December 31, 2000, 2001 and 2002 and the first six months of 2002 and 2003 (dollars in millions):

Year ended December 31,	Total Revenues(1)	% Change
		(in millions)
2000	$1,968.1	N/A
2001	1,223.2	(37.8)%
2002	1,093.7	(10.6)
Six months ended		
June 28, 2002	$551.6	N/A
July 4, 2003	525.7	(4.7)%

(1) Revenues for the year ended December 31, 2000 are pro forma to reflect what our total revenues would have been had the change in distributor revenue recognition methods implemented effective January 1, 2001 been applied retroactively. See Note 4 “Accounting Changes” of the notes to our audited financial statements and “—Other Significant Events—Accounting Changes,” in each case included elsewhere in this report.

Our total revenues declined 37.8% in 2001 from 2000 while total sales in our total addressable market declined 29.8% during the same period. During that period, revenues from our high frequency clock and data management business declined $177.4 million, or 60.0%, and foundry services provided to Motorola decreased $53.5 million. Our total revenues declined 10.6% in 2002 from 2001 while total sales in our total addressable market increased by 2.5% during the same period. During this period, revenues from our high frequency clock and data management business declined further, foundry services provided to Motorola were reduced by $6.8 million, production of certain products was discontinued and certain low margin opportunities were not pursued. Our total revenues declined 4.7% in the first six months of 2003 from the first six months of 2002 as declines in average selling prices have been partially offset by higher volumes. Most of the revenue decline in the first six months of 2003 is attributable to weakness in the automotive market.

Third Quarter 2003 Outlook

We anticipate that our total revenues will grow by 1% to 2% as compared to the second quarter of 2003. We expect that our gross margins will increase slightly in the third quarter of 2003 as a result of our cost reduction measures. While pricing pressures have lessened in the second quarter of 2003 as compared to recent quarters, we do not expect sufficient end-market growth to enable us to achieve positive earnings per share in the fourth quarter of 2003.

Profitability Enhancement Programs

In order to better align our cost structure with our revenues, we initiated profitability enhancement programs during 2000 and 2002. The principal elements of these programs are a manufacturing rationalization plan, a reduction of non-manufacturing personnel and other cost controls.

The elements of the 2000 plan that we commenced in June 2001 were completed in the fourth quarter of 2002 and resulted in $365 million of annualized cost savings, based on a comparison of our cost structure during the first quarter of 2001 to our cost structure during the third quarter of 2002. We expect the 2002 plan to be completed by the end of 2003 and to result in an estimated $80 million of cost savings in 2003, as compared to our cost structure during the third quarter of 2002. Based on a comparison of our cost structure during the third quarter of 2002 and our cost structure during the fourth quarter of 2003, we expect to achieve an estimated $119 million of annual cost savings beginning in 2004. Savings from these plans include reduced employee costs resulting from staff reductions, reduced depreciation expense resulting from asset impairments and other cost savings resulting from the transfer of certain manufacturing and administrative functions to lower cost regions, renegotiation of service and supply contracts, and other actions taken to improve our manufacturing efficiency. As of July 4, 2003, actual savings in 2003 for the 2002 plan were approximately $38 million and we expect to achieve our targeted savings of $80 million by the end of 2003.

The following table summarizes the annual cost savings from the 2000 plan by type and by the applicable caption contained in our consolidated statement of operations (in millions):

	Reduced Employee Costs	Reduced Depreciation	Other Cost Savings	Total
Cost of sales	$ 75	$ 14	$ 166	$255
Research and development	22	—	1	23
Sales and marketing	18	—	16	34
General and administrative	20	1	32	53
	$ 135	$ 15	$ 215	$365

The following table summarizes the estimated annual cost savings from the 2002 plan that we expect following 2003 by type of cost and by the applicable caption contained in our consolidated statement of operations and comprehensive loss (in millions):

	Reduced Employee Costs	Other Cost Savings	Total
Cost of sales	$ 8	$ 100	$108
General and administrative	6	5	11
	$ 14	$ 105	$119

Manufacturing Rationalization Plan. To create operating leverage and efficiencies and to accelerate our ongoing transformation into a leading low cost producer, we have implemented and continue to implement manufacturing cost saving initiatives such as the closure of some of our plants, the relocation or outsourcing of operations to take advantage of lower cost labor markets, the consolidation of other operations, the transfer of some of our external supply to internal operations and the rationalization of our product portfolio. This plan has included, among other actions, phasing out manufacturing operations at our Guadalajara, Mexico facility and transferring some of the manufacturing activities performed at our Aizu, Japan and Seremban, Malaysia facilities to some of our other facilities or to third party contractors.

In many cases, the volume from closed operations has been or is being shifted to our existing facilities in order to improve capacity utilization. Facility closures and production shifts have resulted in some reductions in our manufacturing capacity, but we do not expect these reductions to affect our ability to meet our foreseeable production needs. As part of our 2000 plan described above, we completed manufacturing rationalization actions resulting in a reduction of our manufacturing workforce by 21% from approximately 10,490 employees, as of December 31, 2000, to approximately 8,250 employees, as of December 31, 2002, and annualized cost savings of approximately $255 million as compared to our cost structure in the first quarter of 2001. As part of our 2002 plan described above, we expect to complete further manufacturing rationalization actions by the fourth quarter of 2003. Based on a comparison of our cost structure during the third quarter of 2002 and our cost structure during the fourth quarter of 2003, we also expect to achieve as a result of these actions an estimated $108 million of annual cost savings beginning in 2004.

Reducing Non-Manufacturing Personnel and Implementing Other Cost Controls. As part of our 2000 plan described above, we reduced selling, administrative and research and development personnel from approximately 1,800, as of June 1, 2001, to approximately 1,340, as of December 31, 2002. Approximately 41% of the employees involved in this reduction were in sales or marketing-related positions, approximately 40% were salaried employees in administrative or managerial positions and approximately 19% were employees in research and development positions. As of September 27, 2002, we had achieved annualized cost savings of approximately $110 million starting in the fourth quarter of 2002 as compared to our cost structure in the first quarter of 2001 as a result of these non-manufacturing personnel reductions and other cost controls. As part of our 2002 plan described above, we expect to further reduce selling and administrative personnel by 180 employees by the fourth quarter of 2003. Based on a comparison of our cost structure during the third quarter of 2002 and our cost structure during the fourth quarter of 2003, we expect to achieve as a result of these actions an estimated $11 million of annual cost savings beginning in 2004. In connection with these reductions, we have adopted a more efficient hybrid sales force structure that combines direct sales personnel with sales representatives.

Liquidity and Capital Structure—Cash Position and Capital Expenditures

Cash Position and Capital Expenditures. Cash flows changed significantly in 2002 as compared to 2001. Although our cash balance at December 31, 2002 increased by only $2.2 million as compared to December 31, 2001, cash flows provided by operating activities were $46.4 million in 2002, a $162.8 million improvement from the net cash usage of $116.4 million in 2001. This increase was primarily the result of reduced costs resulting from the restructuring programs and reduced restructuring payments in 2002. We have, as part of a targeted effort to improve our liquidity, also reduced our capital expenditures from $254.1 million in 2000 to $149.0 million in 2001 and $40.5 million in 2002. We do not expect that our capital expenditure reductions will have a negative impact on our ability to service our customers, as we believe that near-term access to additional manufacturing capacity, should it be required, could be readily obtained on reasonable terms through manufacturing agreements with third parties. Capital expenditures are expected to be between $50 and $60 million in 2003. In the first half of 2003, our capital expenditures totaled $24.6 million.

Our cash balance at July 4, 2003 decreased by $8.8 million as compared to April 4, 2003. However, cash flows provided by operating activities increased to $12.1 million in the second quarter of 2003 from $4.6 million in the first quarter of 2003. The increase in cash flows from operations is, in part, attributable to lower interest payments in the second quarter of 2003 as compared to the first quarter of 2003, when $26.9 million of supplemental interest charges were paid. This was offset by other changes in net working capital.

Recent Debt Refinancing. During 2002 and the first quarter of 2003, we refinanced a portion of our senior bank facilities through the issuance of $300.0 million principal amount of our second lien senior secured notes due 2008 and $200 million principal amount of our first lien senior secured notes due 2010. The net proceeds from these two transactions were used to prepay a portion of our senior bank facilities. In connection with the issuance of the first lien senior secured notes, we amended our senior bank facilities to provide us additional financial flexibility by removing the requirement that we maintain certain minimum interest expense coverage ratios and that we do not exceed certain maximum leverage ratios, and by reducing to $140.0 million our minimum EBITDA requirement for any four consecutive fiscal quarters. While we also reduced our permitted capital expenditures to $100.0 million per year (subject to certain increases for improved financial performance and carryovers from prior periods), we do not expect this reduction to have a significant impact on our operating plans or financial performance. As a result of these refinancings we have extended our debt maturities. Because the effective interest rates on the first lien and second lien senior secured notes, which are fixed, are considerably higher than those that currently apply to our senior bank facilities, which are floating, our interest expense has increased as a result of these refinancings.

The following table sets forth, as of July 4, 2003, our long-term debt as of such date on an actual and pro forma basis to give effect to (1) an offering of our common stock and the application of the proceeds therefrom, after deducting the underwriters' discounts and commissions and other related expenses (assuming that the underwriters do not exercise their option to purchase additional shares) and (2) borrowings of $50 million under the additional term loan for which we have received commitments and the application of the proceeds in each case as if the offering and such borrowing had occurred as of such date. The table also shows our other contractual obligations as of such date.

Contractual obligations	Total Amounts Committed	Remainder of 2003	2004	2005	2006	2007	2008 and Beyond
Long-term debt:							
actual	$ 1,441.6	$ 12.3	$ 16.0	$ 155.8	$ 194.5	$ 176.8	$ 886.2
pro forma	1,266.3	12.1	13.1	3.2	141.8	209.9	886.2
Operating leases	18.9	5.0	7.2	4.1	2.3	0.3	—
Purchase obligations	84.5	50.0	20.7	11.2	2.6	—	—
Other long-term obligations—pension plan	36.5	4.0	11.8	20.7	—	—	—
Redeemable preferred stock (including future dividends)	188.5	—	—	—	—	—	188.5
Total contractual cash obligations:							
actual	$ 1,770.0	$ 71.3	$ 55.7	$ 191.8	$ 199.4	$ 177.1	$ 1,074.7
pro forma	1,594.7	71.1	52.8	39.2	146.7	210.2	1,074.7

We have agreed with our lenders to amend our senior bank facilities, effective upon the satisfaction of the conditions specified below. The amendment will, among other things:

- permit us to obtain an additional term loan under our senior bank facilities in an amount up to $50 million, the entire amount of which we intend to borrow simultaneously with the completion of an offering of our common stock and which is expected to have terms similar to those of our existing tranche D term loan facility,
- permit us to apply the net proceeds from equity offerings by us or any of our subsidiaries and borrowings under the additional term loan facility to prepay scheduled principal installments of all term loan borrowings outstanding under our senior bank facilities in chronological order,
- reduce from 75% to 50% the percentage of net proceeds from future equity offerings by us or any of our subsidiaries that is required to be applied to prepay term loan borrowings outstanding under our senior bank facilities and
- permit us to obtain a new $25 million revolving facility that would mature on August 4, 2006, provide for the issuance of letters of credit in currencies other than U.S. dollars that are to be specified and, in all other respects, have terms substantially similar to those of our existing revolving facility.

The effectiveness of the amendment is subject to, among other things, satisfaction before December 7, 2003 of the following conditions:

- our having obtained gross cash proceeds of not less than $150 million from a combination of (1) a public offering of our common stock and (2) borrowings under the additional term loan described above,
- our having applied 100% the net proceeds of from such offering of common stock and the proceeds from such borrowings (1) to repay all outstanding loans (and terminate the commitments) under our existing $62.5 million revolving facility, (2) to prepay in full our tranche A and tranche R term loan facilities and (3) to the extent of any excess net proceeds, to prepay scheduled principal installments of all remaining term loan facilities outstanding under our senior bank facilities in chronological order, and
- our having established the new $25 million revolving facility described above.

We have obtained a commitment from JPMorgan Chase Bank, the administrative agent for our senior bank facilities, to provide an additional term loan of up to $50 million. We have also obtained commitments from JPMorgan Chase Bank and Morgan Stanley Senior Funding, Inc. to provide a new $25 million revolving facility. Simultaneously with the effectiveness of the amendment and termination of the commitments under our existing revolving facility, we intend to roll over letters of credit outstanding under our current revolving facility, which totaled $17.9 million as of September 9, 2003, into the new revolving facility.

Other Significant Events

Accounting Changes

Consolidation of Leshan-Phoenix Semiconductor Company Limited. In the second quarter of 2003, we adopted FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FASB Interpretation No. 46 requires that certain variable interest entities be consolidated by the primary beneficiary, as that term is defined in FASB Interpretation No. 46. We determined that our investment in Leshan-Phoenix Semiconductor Company Limited meets the definition of a variable interest entity as our economic interest in Leshan is proportionately greater than our ownership interest in Leshan and, therefore, our investment in Leshan should be consolidated under FASB Interpretation No. 46. We had previously accounted for our investment in Leshan using the equity method. While consolidation of our investment in Leshan did not impact our previously reported net income (loss) or stockholders' equity (deficit), financial information for periods following our August 4, 1999 recapitalization that appears herein has been revised for comparative purposes as allowed by FASB Interpretation No. 46.

Actuarial Gains or Losses. During the second quarter of 2003, we changed our method of accounting for net unrecognized actuarial gains or losses relating to our defined benefit pension obligations. Historically, we amortized our net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, we will no longer defer actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period in which our annual pension plan actuarial valuations are prepared. We believe that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred.

The impact of this change for periods prior to January 1, 2003 is a charge of $21.5 million or $0.12 per share, both before and after income taxes, and has been reflected as the cumulative effect of a change in accounting principle in our consolidated statement of operations for the six months ended July 4, 2003. The effect of the change on the quarter ended July 4, 2003 was to decrease our net loss by $1.6 million or $0.01 per share, both before and after income taxes. The effect of the change on the six months ended July 4, 2003 was to decrease the loss before cumulative effect of accounting change by $3.2 million or $0.02 per share, both before and after income taxes, and to increase the net loss by $18.3 million or $0.10 per share, both before and after income taxes. Absent the accounting change, the $21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

Reclassification of Loss on Debt Prepayment. We adopted SFAS No. 145 effective January 1, 2003, which required the reclassification within our statement of operations of losses on debt prepayment previously classified as extraordinary items which totaled $6.5 million for the six months ended June 28, 2002.

Goodwill and Other Intangible Assets. Effective January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." The provisions of SFAS No. 141 require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill and require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS No. 141 also requires that, upon adoption of SFAS No. 142, we reclassify the carrying amounts of certain intangible assets into or out of goodwill based on certain criteria. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS No. 142 prohibit the amortization of goodwill and indefinite-lived intangible assets and require that such assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), require that reporting units be identified for the purpose of assessing potential future impairments of goodwill and remove the forty-year limitation on the amortization period of intangible assets that have finite lives. Goodwill amortization expense totaled $10.6 million in 2001.

SFAS No. 142 requires that goodwill be tested annually for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of a reporting unit with the related carrying amount including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Our goodwill at January 1, 2002 totaled $77.3 million and relates to the April 2000 acquisition of Cherry Semiconductor Corporation ("Cherry"). As a result of the adoption of SFAS No. 142, we discontinued amortization of the Cherry goodwill at the beginning of 2002.

During the first quarter of 2002, we identified our various reporting units, which correspond with our four product lines, and allocated its assets and liabilities to such reporting units. The goodwill relating to the Cherry acquisition was specifically identified with and included in our Power Management and Standard Analog reporting unit. During the second quarter of 2002, we completed the first step of its transitional goodwill impairment test and determined that the estimated fair value of the Power Management and Standard Analog reporting unit as of January 1, 2002 exceeded the reporting unit's carrying amount by a substantial amount. As a result, an impairment of the Cherry goodwill as of that date was not indicated and completion of the second step test was not required. We updated our goodwill impairment analysis during the fourth quarter of 2002 and determined that a related impairment did not exist.

Revenue Recognition on Sales to Distributors. As mentioned below in "Critical Accounting Policies," effective January 1, 2001, we changed our accounting method for recognizing revenue on sales to distributors. Recognition of revenue and related gross profit on sales to distributors is now deferred until the distributor resells the product. We believe that this change better aligns reported results with, focuses us on, and allows investors to better understand end user demand for the products that we sell through distributors. Our new revenue recognition policy is commonly used in the semiconductor industry. The cumulative effect of the accounting change for periods prior to January 1, 2001 was a charge of $155.2 million ($116.4 million, or $0.67 per share, net of income taxes). The accounting change resulted in an increase in revenues of $116.6 million and a decrease in our net loss before cumulative effect of accounting change of $53.1 million, or $0.30 per share, for the year ended December 31, 2001.

Derivative Instruments and Hedging Activities. Also effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which establishes standards for the accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and hedging activities. Our interest rate swaps in effect at January 1, 2001 were designated as cash flow hedges, were measured at fair value and recorded as assets or liabilities in the consolidated balance sheet. Upon adoption of SFAS No. 133, we recorded an after-tax charge of $3.4 million to accumulated other comprehensive income (loss) as of January 1, 2001. This charge consisted of a $2.1 million adjustment to record our interest rate swaps in the consolidated balance sheet at their estimated fair values as well as the write-off of an approximate $3.5 million pretax deferred charge (included in other assets in the accompanying consolidated balance sheet at December 31, 2000) relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under our senior bank facilities, both before income taxes of approximately $2.2 million.

In addition to hedging a portion of our interest rate exposure, we use forward foreign currency contracts to reduce our overall exposure to the effects of foreign currency fluctuations on our results of operations and cash flows. The fair value of these derivative instruments are recorded as assets or liabilities with gains and losses offsetting the gains and losses on the underlying assets or liabilities. The adoption of SFAS No. 133 did not impact our accounting and reporting for these derivative instruments.

Acquisition

On April 3, 2000, we acquired all of the outstanding capital stock of Cherry for approximately $253.2 million in cash (including acquisition related costs), which was financed with cash on hand and borrowings of $220.0 million under our senior bank facilities. Cherry, which was renamed Semiconductor Components Industries of Rhode Island, Inc., designs and manufactures analog and mixed signal integrated circuits for the power management and automotive markets, and had revenues for its fiscal year ended February 29, 2000 of $129.1 million.

The Cherry acquisition was accounted for using the purchase method of accounting and, as a result, the purchase price and related costs were allocated to the estimated fair value of assets acquired and liabilities assumed at the time of the acquisition based on management estimates as follows (in millions):

Fair value of tangible net assets	$ 71.3
Developed technology	59.3
In-process research and development	26.9
Assembled workforce	10.0
Excess of purchase price over estimated fair value of net assets acquired (goodwill)	85.7
Total	$253.2

Developed technology was being amortized on a straight-line basis over an estimated useful life of five years. Sustained price declines in certain product lines triggered an impairment analysis of the carrying value of the developed technology and resulted in the recording of an impairment charge of $20.8 million in the first six months of 2003. We measured the amount of the impairment charge by comparing the carrying value of the developed technology using price, volume and cost assumptions that we considered to be reasonable in the circumstances. We will no longer incur amortization expense of approximately $3.0 million per quarter related to this intangible asset. As a result of the impairment of the developed technology, we evaluated the recoverability of the related goodwill that arose in connection with the acquisition of Cherry Semiconductor Corporation. We determined that the estimated fair value of the reporting unit containing the goodwill exceeded its related carrying amount. Accordingly, the goodwill was not considered to be impaired.

Goodwill was being amortized on a straight-line basis over an estimated useful life of ten years; however, as mentioned previously, such amortization was discontinued upon the adoption of SFAS No. 142. Additionally, assembled workforce was being amortized over an estimated useful life of five years. Assembled workforce does not meet the SFAS No. 141 requirements as an intangible asset apart from goodwill. Accordingly, upon adoption of SFAS No. 142, we reclassified the unamortized balance of assembled workforce to goodwill and the related amortization was discontinued.

The fair value of the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. Significant assumptions that had to be made in using this approach included revenue and operating margin projections and determination of the applicable discount rate. The fair value of the acquired in-process research and development was based on sales forecasts and cost assumptions projected to be achievable by Cherry on a stand-alone basis. Operating margins were based on cost of goods sold and selling, general and administrative expenses as a percentage of revenues. All projected revenue and cost information was based on historical results and trends and did not include any synergies or cost savings that may result from the acquisition. The rate used to discount future projected cash flows resulting from the acquired in-process research and development was 20%, which was derived from a weighted average cost of capital analysis adjusted upward to reflect additional risks inherent in the development life cycle.

At the date of acquisition, the in-process research and development consisted of sixty-five projects that had not yet reached technological feasibility and for which no alternative future uses had been identified. Accordingly, these costs were expensed as of the acquisition date. Such projects were approximately 70% to 80% complete at the date of the acquisition. The estimated cost to complete these projects at that date was approximately $4.1 million. Of the sixty-five projects in process at the date of acquisition, we completed thirty-six projects and abandoned twenty-nine projects. Subsequent to the acquisition date, we experienced an industry downturn that required us to scale back research and development activities. Due to the decline in product demand subsequent to the acquisition, 2002 revenues associated with the completed projects were approximately $12.5 million, or 30% of the amount originally forecasted for all acquired in-process research and development projects at the date of acquisition.

Critical Accounting Policies

The accompanying discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. We utilize the following critical accounting policies in the preparation of our financial statements.

Revenue. We generate revenue from sales of our semiconductor products to original equipment manufacturers, electronic manufacturing service providers, and distributors. We recognize revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the customer net of provisions for related sales returns and allowances.

Prior to January 1, 2001, we recognized revenue on distributor sales when title passed to the distributor. Provisions were recorded at that time for estimated sales returns as well as for other related sales costs and allowances. Effective January 1, 2001, we changed our revenue recognition policy for distributor sales so that the related revenues are now deferred until the distributor resells the product to the end user. This change eliminated the need to provide for estimated sales returns from distributors. Title to products sold to distributors typically passes at the time of shipment by us so we record accounts receivable for the amount of the transaction, reduce our inventory for the products shipped and defer the related margin in our consolidated balance sheet. We recognize the related revenue and profit when the distributor sells the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

We believe that this change to our revenue recognition method for distributor sales better aligns our reported results with, focuses us on, and enables investors to better understand, end user demand for the products we sell through distribution as our revenue is not influenced by our distributors' stocking decisions.

Inventories. We carry our inventories at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market and record provisions for slow moving inventories based upon a regular analysis of inventory on hand compared to historical and projected end user demand. Projected end user demand is generally based on sales during the prior twelve months. These provisions can influence our results from operations. For example, when demand falls for a given part, all or a portion of the related inventory is reserved, impacting our cost of sales and gross profit. If demand recovers and the parts previously reserved are sold, we will generally recognize a higher than normal margin. However, the majority of product inventory that has been previously reserved is ultimately discarded. Although we do sell some products that have previously been written down, such sales have historically been relatively consistent on a quarterly basis and the related impact on our margins on a comparative basis has not been material.

Deferred Tax Valuation Allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In determining the amount of the valuation allowance, we consider estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction in which we operate. If we determine that we will not realize all or a portion of our remaining deferred tax assets, we will increase our valuation allowance with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. In the fourth quarter of 2001, we established a valuation allowance for the majority of our deferred tax assets and, to date, we have not recognized any incremental domestic deferred tax benefits. We monitor our ability to utilize our deferred tax assets and the continuing need for a related valuation allowance on an ongoing basis.

Impairment of Long-Lived Assets. We periodically evaluate the recoverability of the carrying amount of our property, plant and equipment, intangible assets and other long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Impairment is assessed when the undiscounted expected cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in operating results. We continually apply our best judgment when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an impaired asset. The dynamic economic environment in which we operate and the resulting assumptions used to estimate future cash flows impact the outcome of our impairment tests.

Goodwill. We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing our goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Defined Benefit Plans. We maintain pension plans covering certain of our employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increase for plan employees. All of these assumptions are based upon management's judgment, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact future expense recognition and cash funding requirements of our pension plans. Effective January 1, 2003, we changed our method of amortizing unrecognized actuarial gains or losses associated with our defined benefit pension plans. See "Accounting Changes—Actuarial Gains or Losses," above.

Results of Operations

The following table summarizes certain information relating to our operating results that has been derived from our audited consolidated financial statements for the years ended December 31, 2000, 2001 and 2002 and our unaudited interim financial statements for the six months ended June 28, 2002 and July 4, 2003. The pro forma column for 2000 reflects our results as if the change in distributor revenue recognition discussed above had been applied retroactively. The pro forma results are used for comparative purposes in the following discussion of our results of operations. We believe this presentation is useful to investors in comparing historical results and this presentation is used by our management in making historical comparisons. Additionally, all historical financial statements, amounts and disclosures have been revised to reflect the consolidation of Leshan, as discussed in "—Summary of Recent Developments" herein. The amounts in the following table are in millions.

	Year Ended December 31,				Six months ended,	
	2000					
	As Reported	Pro Forma	2001	2002	June 28, 2002	July 4, 2003
Total revenues	$ 2,083.3	$ 1,968.1	$ 1,223.2	$ 1,093.7	$ 551.6	$ 525.7
Cost of sales	1,354.2	1,292.7	995.9	795.9	407.6	377.9
Gross profit	729.1	675.4	227.3	297.8	144.0	147.8
Operating expenses:						
Research and development	69.2	69.2	80.9	67.9	33.5	34.7
Selling and marketing	100.1	100.1	74.8	61.2	29.8	31.7
General and administrative	233.4	233.4	130.9	102.1	55.9	42.4
Amortization of goodwill and other intangibles	16.8	16.8	22.6	11.9	6.0	5.9
Write-off of acquired in-process research and development	26.9	26.9	—	—	—	—
Restructuring, asset impairments and other	4.8	4.8	150.4	27.7	10.2	34.6
Total operating expenses	451.2	451.2	459.6	270.8	135.4	149.3
Operating income (loss)	277.9	224.2	(232.3)	27.0	8.6	(1.5)
Other income (expenses):						
Interest expense, net	(135.3)	(135.3)	(139.6)	(149.5)	(73.6)	(76.9)
Equity in earnings (losses) of joint ventures	1.1	1.1	—	(0.6)	—	—
Gain on sale of investment in joint venture	—	—	3.1	—	—	—
Loss on debt prepayment	(29.2)	(29.2)	—	(6.5)	(6.5)	(3.5)
Other income (expenses), net	(163.4)	(163.4)	(136.5)	(156.6)	(80.1)	(80.4)
Income (loss) before income taxes, minority interests and cumulative effect of accounting change	114.5	60.8	(368.8)	(129.6)	(71.5)	(81.9)
Income tax provision	(39.0)	(25.6)	(345.8)	(9.5)	(8.1)	(4.5)
Minority interests	(4.4)	(4.4)	(0.4)	(2.8)	(2.2)	(0.1)
Net income (loss) before cumulative effect of accounting change	71.1	30.8	(715.0)	(141.9)	(81.8)	(86.5)
Cumulative effect of accounting change, net of tax	—	—	(116.4)	—	—	(21.5)
Net income (loss)	$ 71.1	$ 30.8	$ (831.4)	$ (141.9)	$ (81.8)	$ (108.0)

The following table summarizes certain information relating to our operating results as a percentage of total revenues and has been derived from our audited consolidated financial statements for the years ended December 31, 2000, 2001 and 2002 and our unaudited interim financial statements for the six months ended June 28, 2002 and July 4, 2003. The pro forma column for 2000 reflects our results as if the previously mentioned change in distributor revenue recognition had been applied retroactively. The pro forma results are used for comparative purposes in the following discussion of our results of operations. We believe this presentation is useful to investors in comparing historical results and this presentation is used by our management in making historical comparisons. Additionally, all historical financial statements, amounts and disclosures have been revised to reflect the consolidation of Leshan, as discussed in "—Summary of Recent Developments" herein. Certain amounts in the table may not sum due to the rounding of individual components.

	Year Ended December 31,				Six Months Ended	
	2000					
	As Reported	Pro Forma	2001	2002	June 28, 2002	July 4, 2003
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	65.0	65.7	81.4	72.8	73.9	71.9
Gross profit	35.0	34.3	18.6	27.2	26.1	28.1
Operating expenses:						
Research and development	3.3	3.5	6.6	6.2	6.1	6.6
Selling and marketing	4.8	5.1	6.1	5.6	5.4	6.0
General and administrative	11.2	11.9	10.7	9.3	10.1	8.1
Amortization of goodwill and other intangibles	0.8	0.9	1.8	1.1	1.1	1.1
Write-off of acquired in-process research and Development	1.3	1.4	—	—	—	—
Restructuring, asset impairments and other	0.2	0.2	12.3	2.5	1.8	6.6
Total operating expenses	21.7	22.9	37.6	24.8	24.5	28.4
Operating income (loss)	13.3	11.4	(19.0)	2.5	1.6	(0.3)
Other income (expenses):						
Interest expense, net	(6.5)	(6.9)	(11.4)	(13.7)	(13.3)	(14.6)
Equity in earnings (losses) of joint ventures	0.1	0.1	0.0	(0.1)	—	—
Gain on sale of investment in joint venture	—	—	0.3	—	—	—
Loss on debt prepayment	(1.4)	(1.5)	—	(0.6)	(1.2)	(0.7)
Other income (expenses), net	(7.8)	(8.3)	(11.2)	(14.3)	(14.5)	(15.3)
Income (loss) before income taxes, minority interests, and cumulative effect of accounting change	5.5	3.1	(30.2)	(11.8)	(13.0)	(15.6)
Income tax provision	(1.9)	(1.3)	(28.3)	(0.9)	(1.5)	(0.9)
Minority interests	(0.2)	(0.2)	0.0	(0.3)	(0.4)	(0.0)
Net income (loss) before cumulative effect of accounting change	3.4	1.6	(58.5)	(13.0)	(14.8)	(16.5)
Cumulative effect of accounting change, net of tax	—	—	(9.5)	—	—	(4.1)
Net income (loss)	3.4%	1.6%	(68.0)%	(13.0)%	(14.8)%	(20.5)

Six Months Ended July 4, 2003 Compared to Six Months Ended June 28, 2002

Total Revenues. Total revenues decreased $25.9 million, or 4.7%, to $525.7 million in the first six months of 2003 from $551.6 million in the first six months of 2002 due to declines in average selling prices of approximately 8% partially offset by volume and mix changes. The revenues by product line for the six months ended July 4, 2003 and June 28, 2002 are as follows (dollars in millions):

	Six Months Ended July 4, 2003	% of Revenue	Six Months Ended June 28, 2002	% of Revenue	Dollar Change	% Change
Power Management and Standard Analog	$ 164.8	31.3%	$ 181.0	32.8%	$ (16.2)	(9.0)%
MOS Power Devices	68.2	13.0	70.1	12.7	(1.9)	(2.7)
High Frequency Clock and Data Management	40.5	7.7	38.6	7.0	1.9	4.9
Standard Components	252.2	48.0	261.9	47.5	(9.7)	(3.7)
Total Revenues	$ 525.7		$ 551.6		$ (25.9)	

Average selling prices have declined across all of our product lines. However, in the high frequency clock and data management product line, volume increases and mix changes have offset these pricing declines, causing overall revenue growth in this product line in the first six months of 2003 as compared to the first six months of 2002.

Approximately 33%, 49% and 18% of our revenues during the first six months of 2003 were derived from the Americas, Asia/Pacific and Europe (including the Middle East), respectively, compared to 38%, 43% and 19%, respectively, during the first six months of 2002. Strength in the Asia/Pacific market was fueled primarily by increased sales to China as a result of our continued focus on this growth market.

Cost of Sales. Cost of sales for the first six months of 2003 decreased $29.7 million, or 7.3%, to $377.9 million from $407.6 million in the first six months of 2002. This decrease is attributable to $47.9 million of cost reduction activities and $8.4 million of lower provisions for excess inventories taken during the first six months of 2003 as compared to the first six months of 2002. These factors were partially offset by an increase in unit volumes, mix changes, and an increase in freight expense of $14.5 million in the first six months of 2003 as compared to the first six months of 2002 due to the expiration of the freight sharing agreement with Motorola in 2002.

Gross Profit. Gross profit for the first six months of 2003 increased $3.8 million, or 2.6%, to $147.8 million from $144.0 million in the first six months of 2002. As a percentage of revenues, gross profit increased to 28.1% during the first six months of 2003 from 26.0% in the first six months of 2002. To summarize the fluctuations described above, the increase in gross profit was attributable to cost reduction activities and lower provisions for excess inventories. These factors were partially offset by decreases in average selling prices and an increase in freight expense with the expiration of the freight sharing agreement with Motorola.

Research and Development. Research and development costs increased $1.2 million, or 3.6%, to $34.7 million in the first six months of 2003 compared with $33.5 million in the first six months of 2002 as we continue to focus on new product development. As a percentage of revenues, research and development costs increased to 6.6% in the first six months of 2003 as compared to 6.1% in the first six months of 2002. The primary emphasis of our new product development efforts is in the expected high growth market applications of power management and standard analog and high frequency clock and data management solutions, with approximately 80% of our overall research and development investments focused in these areas.

Selling and Marketing. Selling and marketing expenses in the first six months of 2003 increased by $1.9 million, or 6.4%, to $31.7 million compared with $29.8 million in the first six months of 2002. The increase is attributable to a change in the commission structure for external sales representatives to reflect current market rates, increased hiring of field application engineers and management and executive hiring costs. As a percentage of revenues, selling and marketing expenses for the first six months of 2003 were 6.0% compared with 5.4% in the first six months of 2002.

General and Administrative. General and administrative expenses decreased by $13.5 million, or 24.2%, to $42.4 million from $55.9 million in the first six months of 2002, as a result of personnel reductions and the relocation of certain functions to lower cost regions, reduced bonus accruals, and the discontinuation of the amortization of actuarial losses in 2003 in connection with the change in accounting for actuarial losses associated with our defined benefit pension plans. As a percentage of revenues, these costs decreased to 8.1% in the first six months of 2003 from 10.1% in the first six months of 2002.

Amortization of Intangible. Amortization of intangible asset remained consistent, at $5.9 million in the first six months of 2003 compared to $6.0 million in the first six months of 2002, reflecting straight-line amortization of developed technology obtained in the acquisition of Cherry Semiconductor Corporation in April 2000. Due to the previously mentioned impairment charge relating to this asset, there will be no future amortization.

Restructuring, Asset Impairments and Other. Restructuring, asset impairments and other charges were $34.6 million in the first six months of 2003 as compared to $10.2 million in the first six months of 2002. At July 4, 2003, we have $11.1 million accrued in relation to all of our restructuring programs and expect this amount to be paid over the next year. We expect that the savings from these programs will more than offset the expected payments in 2003.

During the second quarter of 2003, we recorded charges totaling $13.3 million associated with our worldwide restructuring programs. The charges include $0.4 million to cover employee separation costs relating to the termination of approximately 16 employees, $1.4 million of lease and contract termination exit costs, $10.5 million of asset impairments and an additional $1.0 million associated with the termination of a supply contract that was part of the June 2002 restructuring program. Also included in restructuring, asset impairments and other charges on the consolidated statement of operations are charges totaling $21.3 million including $20.8 million relating to the write-off of the developed technology intangible asset associated with the April 2000 purchase of Cherry Semiconductor Corporation and the $0.5 million write-off of a cost basis investment. As of July 4, 2003, all employees have been terminated under this restructuring plan, and the remaining liability related to this restructuring was $0.8 million.

During the second quarter of 2002, we recorded a charge of $16.7 million to cover costs associated with a worldwide restructuring program involving manufacturing, selling, general and administrative functions. The charge included $3.9 million to cover employee separation costs associated with the termination of 79 employees, $8.4 million for fixed asset impairments that were charged directly against the related assets, $2.8 million in costs related to termination of certain purchase and supply agreements, and $1.6 million of additional exit costs associated with the shutdown of our Guadalajara, Mexico facility. Employee separation costs included $1.0 million of non-cash charges associated with the modification of stock options for certain terminated employees. As of July 4, 2003, all employees have been terminated under this restructuring plan, and the remaining liability related to this restructuring was $2.5 million. We released to income $1.2 million of exit costs previously accrued in connection with a 2001 restructuring program. We also recorded a gain of $12.4 million related to a settlement with Motorola on April 8, 2002, which partially offset the charges discussed above for a net charge of $3.1 million.

During the first quarter of 2002, we recorded charges of $7.1 million (net of a $0.1 million recovery) to cover costs associated with our worldwide profitability enhancement programs. The charges primarily relate to the consolidation of manufacturing, selling and administrative functions in the U.S. and Europe. The charges included $7.2 million to cover employee separation costs associated with the termination of approximately 72 employees. Employee separation costs included $0.2 million of non-cash charges associated primarily with the acceleration of vesting of stock options for terminated employees. As of July 4, 2003, substantially all employees have been terminated under this restructuring plan, and the remaining liability related to this restructuring was $1.0 million.

Interest Expense. Interest expense increased $3.3 million, or 4.5%, to $76.9 million for the first six months of 2003 from $73.6 million in the first six months of 2002. The higher interest expense was due to a slight increase in our weighted-average interest rate on long-term debt (including current maturities) and an increase in our total long-term debt outstanding. Our weighted average interest rate increased to 10.7% per annum for the first six months of 2003 compared to 10.5% per annum for the first six months of 2002, computed by dividing total interest expense by our average month-end debt balances. The increases in our weighted-average interest rate and our total long-term debt are attributable to the net effect of the debt refinancings that occurred in 2002 and 2003.

Income Tax Provision. We recognized an income tax provision of $4.5 million in the first six months of 2003 compared with $8.1 million in the first six months of 2002. The provision relates to income and withholding taxes of certain of our foreign operations. The decrease in the income tax provision was due to a change in the mix of income from high-tax foreign jurisdictions to lower-tax foreign jurisdictions and the recognition of certain foreign tax credits in the first six months of 2003.

Minority Interests. Minority interests represent the portion of the net income or loss of our majority-owned Czech and Chinese subsidiaries attributable to the minority owners of each subsidiary. We consolidate these subsidiaries in our financial statements.

Loss on Debt Prepayment. Loss on debt prepayment of $3.5 million in first six months of 2003 and $6.5 million in the first six months of 2002 represents the write-off of debt issuance costs in connection with the debt refinancings that occurred in those respective periods.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Total Revenues. Total revenues decreased $129.5 million, or 10.6%, to $1,093.7 million in 2002 from $1,223.2 million in 2001 due to declines in average selling prices of approximately 10% and a reduction of foundry revenues of approximately $7 million. The percentage of billings related to new products (defined as products introduced within the prior 36 months) increased in 2002 as compared to 2001. The revenues by product line for the years ended December 31, 2002 and 2001, respectively, are as follows (dollars in millions):

	Year Ended December 31, 2002	% of Revenue(1)	Year Ended December 31, 2001	% of Revenue(1)	Dollar Change	% Change
Power Management and Standard Analog	$ 362.7	33.2%	$ 365.4	29.9%	$ (2.7)	(0.7)%
MOS Power Devices	138.7	12.7	146.7	12.0	(8.0)	(5.5)
High Frequency Clock and Data Management	72.0	6.6	118.5	9.7	(46.5)	(39.2)
Standard Components	520.3	47.6	592.6	48.4	(72.3)	(12.2)
Total Revenues	$ 1,093.7		$ 1,223.2		$(129.5)	

(1) Certain amounts may not total due to rounding of individual components

On a percentage basis, the revenue decline has been the most pronounced in our high frequency clock and data management product line as unit demand from the networking and telecommunications end markets continued to decline. For our other product lines, we experienced an increase in unit demand in 2002; however, this was more than offset by decreases in average selling prices, resulting in total revenue declines in 2002.

Approximately 37%, 45% and 18% of our revenues during 2002 were derived from the Americas, Asia/ Pacific and Europe (including the Middle East), respectively, compared to 40%, 39% and 21%, respectively, during 2001. The change from prior year reflects the continuing recovery of the Asia/Pacific markets and our growth in the China market.

Cost of Sales. Cost of sales for the year ended December 31, 2002 decreased $200.0 million, or 20.1%, to $795.9 million from $995.9 million in 2001. This decrease is attributable to $175.2 million of cost reduction activities and $34.9 million of lower provisions for excess inventories taken during 2002 as compared to 2001. As of the end of the third quarter of 2002, we completed actions to achieve an estimated $255 million of annual cost of sales savings as compared to our cost structure as of the first quarter of 2001. These cost savings were partially offset by an increase in freight expense of $11 million in the second half of 2002 as compared to the second half of 2001 due to the expiration of the freight sharing agreement with Motorola during 2002.

Looking forward, we anticipate additional cost savings from our restructuring programs (see "—Summary of Recent Developments" above). Although freight expense in 2003 is expected to increase as compared to 2002, since we benefited from the Motorola freight sharing agreement during the first half of 2002, we do not expect our freight cost structure in 2003 to significantly change from that of the last two quarters of 2002.

Gross Profit. Gross profit (computed as total revenues less cost of sales) for the year ended December 31, 2002 increased $70.5 million, or 31.0%, to $297.8 million from $227.3 million in 2001. As a percentage of total revenues, gross margin increased to 27.2% during 2002 from 18.6% in 2001. To summarize the fluctuations described above, the increase in gross margin was attributable to cost improvements from restructuring efforts and lower provisions for excess inventories, offset by decreases in average selling prices and an increase in freight expense with the expiration of the freight sharing agreement with Motorola.

Research and Development. Research and development costs decreased $13.0 million, or 16.1%, to $67.9 million in 2002 compared with $80.9 million in 2001, primarily as a result of aligning our operating costs with our revenues. As a percentage of revenues, research and development costs remained fairly consistent at 6.2% in 2002 as compared to 6.6% in 2001. The primary emphasis of our new product development efforts is in the expected high growth market applications of high frequency clock and data management and power management and standard analog solutions, with approximately 80% of our overall research and development investments focused in these areas. During 2002, we introduced 176 new products.

Selling and Marketing. Selling and marketing expenses for the year ended December 31, 2002 decreased by $13.6 million, or 18.2%, to $61.2 million compared with $74.8 million in 2001. As a percentage of revenues, selling and marketing expenses for 2002 were 5.6% compared with 6.1% in 2001 with the decline attributable to our worldwide restructuring programs. Restructuring efforts in selling and marketing, including the downsizing of our sales force, closing of sales offices as well as our regional sales headquarters and centralizing and relocating our order entry functions to lower cost regions, were largely enacted during the second quarter of 2001.

General and Administrative. General and administrative expenses decreased by $28.8 million, or 22.0%, to $102.1 million from $130.9 million in 2001, as a result of personnel reductions of approximately 30% (as compared to 2001) and the relocation of functions to lower cost regions. As a percentage of revenues, these costs decreased to 9.3% in 2002 from 10.7% in 2001.

Amortization of Intangibles. Amortization of intangibles decreased $10.7 million to $11.9 million in 2002 from $22.6 million 2001, as a result of the adoption of SFAS No. 142 effective January 1, 2002, which eliminated the amortization of goodwill (see Note 3 "Significant Accounting Policies" of the notes to our audited consolidated financial statements included elsewhere in this report.)

Restructuring, Asset Impairments and Other. Restructuring and other activity decreased $122.7 million to $27.7 million in 2002 from $150.4 million in 2001, as most of our restructuring activities were initiated in 2001. We have $19.5 million accrued in relation to the 2001 and 2002 programs and expect this amount to be paid over 2003. We expect that the savings from these programs will more than offset the expected payments in 2003.

During 2002, we recorded charges of $35.2 million to cover costs associated with our worldwide profitability enhancement programs. The charges primarily relate to the consolidation of manufacturing, selling and administrative functions in the U.S. and Europe. The charges included $21.2 million to cover employee separation costs associated with the termination of approximately 451 employees, asset impairments of $9.4 million, and $4.6 million of other costs primarily related to facility closures and contract terminations. The asset impairments were charged directly against the related assets. Employee separation costs included $1.2 million of non-cash charges associated primarily with the acceleration of vesting of stock options for terminated employees. As of December 31, 2002, the remaining liability relating to this restructuring was $16.6 million. As of December 31, 2002, approximately 100 employees have been terminated under this restructuring plan.

During the second quarter of 2002, we reached a settlement of various contractual issues with Motorola in exchange for a cash payment from Motorola of $10.6 million resulting in a related gain of $12.4 million (see Note 18 "Related Party Transactions" of the notes to our audited consolidated financial statements included elsewhere in this report for further details of the Motorola settlement).

In December 2002, we recorded a $4.9 million charge to cover costs associated with the separation of two of our executive officers. In connection with the separation, we reserved $2.0 million related to the cash portion of the related separation agreements. In addition, we agreed to modify the vesting and exercise period for a portion of the executives' stock options. This modification resulted in a non-cash stock compensation charge of $2.9 million with an offsetting credit to additional paid-in capital.

See Note 5 "Restructuring, Asset Impairments and Other" of the notes to our audited consolidated financial statements included elsewhere in this report for a further discussion of these charges.

Interest Expense. Interest expense increased $9.9 million, or 7.1%, to $149.5 million for 2002 from $139.6 million in 2001. The higher interest expense was due to the increased supplemental interest charges of $4.9 million in 2002 as compared to 2001 resulting from the August 2001 amendments to our senior bank facilities. The higher interest expense in 2002 also reflects a full year of interest on the draw on our revolving credit facility that occurred in June 2001. Our weighted-average interest rate on long-term debt (including current maturities) was 10.5% per annum and 10.3% per annum in 2002 and 2001, respectively, computed by dividing total interest expense by our average month-end debt balances.

Gain on Sale of Investment in Joint Venture. We had a 50% interest in Semiconductors Miniatures Products Malaysia Sdn. Bhd. ("SMP"). As a part of the joint venture agreement, our joint venture partner, Philips Semiconductors International B.V. ("Philips"), had the right to purchase our interest in SMP between January 2001 and July 2002. In February 2001, Philips exercised its purchase right, acquiring our 50% interest in SMP effective December 31, 2000. This transaction resulted in proceeds of approximately $20.4 million and a pre-tax gain of approximately $3.1 million.

Loss on Debt Prepayment. Loss of $6.5 million in 2002 represents the write-off of debt issuance costs in connection with the debt refinancing that occurred in 2002.

Income Tax Provision. We recognized an income tax provision of $9.5 million in 2002 compared with $345.8 in 2001. The 2002 provision related to income and withholding taxes of certain of our foreign operations. The 2001 amount was greatly influenced by our decision to limit the recognition of deferred tax benefits relating to our operating losses to the amount that could be recovered via carry-back. This decision resulted in an increase of $366.8 million in our valuation allowance established for our U.S. tax benefits. This was partially offset by deferred tax benefits recognized for certain operating losses incurred outside the U.S.

Minority Interests. Minority interests represent the portion of the net income or loss of our majority-owned Czech and Chinese subsidiaries attributable to the minority owners of each subsidiary. We consolidate these subsidiaries in our financial statements. The overall net income of these subsidiaries improved in 2002 as compared to 2001 as a result of improved capacity utilization; therefore the elimination of the minority interests increased to $2.8 million in 2002 as compared to $0.4 million in 2001.

Year Ended December 31, 2001 Compared to Pro Forma Year Ended December 31, 2000

Total Revenues. Total revenues decreased $744.9 million, or 37.8%, to $1,223.2 million in 2001 from $1,968.1 million in 2000. The decrease occurred in all of our major product lines. Approximately 10% of this decrease was due to reductions in selling prices with the remaining 28% decline due to reduced volume and changes in our product mix. Foundry revenues, included in our standard components product line, decreased by $53.5 million to $8.2 million in 2001 from $61.7 million in 2000. Foundry revenues result from agreements made with Motorola during our separation and we expect that these revenues will continue to decline in the future.

The revenues by product line for the year ended December 31, 2001 compared to the pro forma revenues by product line for the year ended December 31, 2000 are as follows (dollars in millions):

	Year Ended December 31, 2001	% of Revenue(1)	Year Ended December 31, 2000	% of Revenue(1)	Dollar Change	% Change
Power Management and Standard Analog	$ 365.4	29.9%	$ 496.7	25.2%	(131.3)	(26.4)%
MOS Power	146.7	12.0	212.1	10.8	(65.4)	(30.8)
High Frequency Clock and Data Management	118.5	9.7	295.9	15.0	(177.4)	(60.0)
Standard Components	592.6	48.4	963.4	49.0	(370.8)	(38.5)
Total Revenues	$ 1,223.2		$ 1,968.1		$(744.9)	

(1) Certain amounts may not total due to rounding of individual components

As previously discussed, beginning in the last quarter of 2000 and continuing into 2001, we experienced slowing demand and pricing pressures for our products as customers delayed or cancelled bookings in order to manage their inventories in line with incoming business.

Approximately 40%, 39% and 21% of our total revenues in 2001 were derived from the Americas, Asia/ Pacific and Europe (including the Middle East), respectively, compared to 46%, 34% and 20%, respectively, in 2000. The increase in the Asia/Pacific region reflects our customers' shift in production into that region.

Cost of Sales. Cost of sales decreased $296.8 million, or 23.0%, to $995.9 million in 2001 from $1,292.7 million in 2000, as a result of decreased sales volume. Cost of sales as a percentage of revenues increased to 81.4% in 2001 from 65.7% in 2000 due to lower factory utilization coupled with increased provisions for excess and obsolete inventory, partially offset by cost savings resulting from our restructuring programs. The restructuring programs include the implementation of ongoing cost-saving initiatives to rationalize our product portfolio, close plants and relocate or outsource related operations to take advantage of lower-cost labor markets and make our manufacturing processes more efficient.

Gross Profit. Gross profit (computed as total revenues less cost of sales) decreased $448.1 million, or 66.3%, to $227.3 million in 2001 from $675.4 million in 2000. As a percentage of total revenues, gross margin declined to 18.6% in 2001 from 34.3% in 2000. The decline in gross margin was primarily due to lower factory utilization resulting from lower customer demand, lower selling prices, and a change in mix towards lower margin devices, partially offset by cost restructuring initiatives.

Research and Development. Research and development costs increased $11.7 million, or 16.9%, to $80.9 million in 2001 from $69.2 million in 2000. As a percentage of total revenues, research and development costs increased to 6.6% in 2001 from 3.5% in 2000 because of decreased revenues accompanied by increased spending on new product development. The primary emphasis of our new product development is on power management and standard analog and high frequency clock and data management solutions, which are the highest margin and fastest potential growth product lines in our portfolio. We have targeted 80% of our overall research and development investment on these products. We are committed to increase our spending on new product development in order to stay competitive in our markets. During 2001, we introduced 344 new products.

Selling and Marketing. Selling and marketing expenses decreased by $25.3 million, or 25.3%, to $74.8 million in 2001 from $100.1 million in 2000 as a result of our restructuring program. As a percentage of total revenues, however, these costs increased to 6.1% in 2001 from 5.1% in 2000 as a result of decreased total revenues that were only partially offset by cost savings resulting from our restructuring actions. These actions included the downsizing of our sales force, closing of sales offices as well as our regional sales headquarters and centralizing and relocating our order entry function to lower cost locations.

General and Administrative. General and administrative expenses decreased by $102.5 million, or 43.9% to $130.9 million in 2001 from $233.4 million in 2000, as a result of cost reduction actions from our restructuring program. The major reductions were associated with personnel reductions, simplification of our overall corporate structure and regional infrastructure, elimination of some of our employee bonuses and lower use of consultants. As a percentage of total revenues, these costs decreased to 10.7% in 2001 from 11.9% in 2000.

Write-off of Acquired In-process Research and Development. In 2000, we incurred a $26.9 million charge for the write-off of acquired in-process research and development resulting from the Cherry acquisition. No such charges were incurred in 2001.

Amortization of Goodwill and Other Intangibles. Amortization of goodwill and other intangibles was $22.6 million in 2001 compared to $16.8 million in 2000. The amortization relates to the intangible assets that were acquired with Cherry in the second quarter of 2000, including amounts related to developed technology, assembled workforce and goodwill. In 2001, we had a full year of related amortization expenses as compared to only nine months of amortization in 2000.

Restructuring, Asset Impairments and Other. During 2001, we recorded charges of $146.6 million to cover costs associated with our worldwide profitability enhancement programs. The charges relate to the consolidation of selling and administrative functions in the U.S. and Europe, phasing out manufacturing operations at our Guadalajara, Mexico facility, transferring certain manufacturing activities performed at our Aizu, Japan and Seremban, Malaysia facilities to other facilities we own or to third party contractors and consolidation of other operations. The charges included $80.4 million to cover employee separation costs associated with the termination of approximately 4,350 employees, asset impairments of $56.2 million and $10.0 million of other costs primarily related to facility closures and contract terminations. The asset impairments were charged directly against the related assets. Employee separation costs included $1.3 million of non-cash charges associated primarily with the acceleration of vesting of stock options for terminated employees and $7.4 million for additional pension charges related to terminated employees. As of December 31, 2001, the remaining liability relating to this restructuring was $19.8 million. As of December 31, 2001, approximately 3,500 employees have been terminated under this restructuring plan.

In March 2001, we recorded a $3.8 million charge to cover costs associated with the separation of one of our executive officers. In connection with the separation, we paid the former executive officer $1.9 million. In addition, we agreed to accelerate the vesting of his remaining stock options and to allow such options to remain exercisable for the remainder of their ten-year term. We recorded a non-cash charge of $1.9 million related to the modification of these options.

During 2000, we recorded a $5.6 million charge to cover costs associated with a restructuring program at our manufacturing facility in Guadalajara, Mexico. The charge included $3.2 million to cover employee separation costs associated with the termination of approximately 500 employees and $2.4 million for asset impairments that were charged directly against the related assets. In September 2000, we completed our evaluation of costs to be incurred and released $0.8 million of the reserve for employee separation costs to income. As of December 31, 2001, there was no remaining liability relating to the 2000 restructuring program.

See Note 5 “Restructuring, Asset Impairments and Other” of the notes to our audited consolidated financial statements included elsewhere in this report for a further discussion of our restructuring activity.

Operating Income (Loss). Operating income (loss) decreased $456.5 million, or 203.6%, to a $232.3 million loss in 2001 from operating income of $224.2 million in 2000. This decrease was due to decreased gross profits resulting from reduced product revenues, lower factory utilization and inventory charges, increased research and development costs, increased amortization of goodwill and other intangibles and restructuring and other charges offset by reduced selling, marketing and general and administrative costs resulting from our restructuring actions and the lack of the acquired in-process research and development write-off which occurred in 2000. As a result of these efforts, we incurred restructuring, asset impairments and other charges of $150.4 million in 2001.

Interest Expense. Interest expense increased $4.3 million, or 3.2%, to $139.6 million in 2001 from $135.3 million in 2000. The increase was due to interest related to the $125.0 million drawn on our revolving line of credit in May 2001 as well as increased interest rates related to the amendments to our senior bank facilities. (See “Liquidity and Capital Resources” below and Note 9 “Long-term Debt” of Notes to our audited consolidated financial statements included elsewhere in this report). The increase in interest expense was partially offset by the redemption of a portion of the senior subordinated notes and prepayment of a portion of the loans outstanding under the senior bank facilities with the proceeds from our IPO during 2000.

Equity in Earnings (Losses) of Joint Ventures. Equity in earnings (losses) from joint ventures decreased to zero in 2001 from $1.1 million in 2000, due primarily to the sale of our interest in our SMP joint venture effective December 31, 2000.

Gain on Sale of Investment in Joint Venture. We had a 50% interest in SMP. As a part of the joint venture agreement, our joint venture partner, Philips, had the right to purchase our interest in SMP between January 2001 and July 2002. In February 2001, Philips exercised its purchase right, acquiring our 50% interest in SMP effective December 31, 2000. This transaction resulted in proceeds of approximately $20.4 million and a pre-tax gain of approximately $3.1 million.

Minority Interests. Minority interests represent the portion of the net income (loss) of our majority-owned Czech and Chinese subsidiaries attributable to the minority owners of each subsidiary. We consolidate these subsidiaries in our financial statements. The overall net income of these subsidiaries declined in 2001 as compared to 2000 as a result of lower capacity utilization; therefore the elimination of the minority interests decreased to $0.4 million in 2001 as compared to $4.4 million in 2000.

Income Tax Provision. The provision for income taxes increased in 2001 to $345.8 million from $25.6 million in 2000. During the fourth quarter of 2001, we recorded a $366.8 million income tax charge to establish a valuation allowance for the portion of our deferred tax assets for which it is more likely than not that the related benefits will not be realized. When coupled with the tax benefits relating to the 2001 operating loss that were not recognized during the year, our valuation allowance totaled $450.6 million at December 31, 2001. We established the valuation allowance based upon management’s analysis of the information available which included, among other things, the operating loss experienced during the year as well as uncertainties surrounding the timing of the recovery in economic conditions both generally as well as with the semiconductor industry. Our 2001 effective tax rate, after valuation allowance, is 93.8% as compared to 34.1% in 2000. (See Note 10 “Income Taxes” of our audited notes to consolidated financial statements elsewhere in this report.)

Liquidity and Capital Resources

This section discusses:

1) Sources and uses of cash, and significant factors that influence both;
2) Key events affecting our capital structure;
3) Our analysis of our cash flows for 2000, 2001 and 2002 and the first six months of 2003;
4) EBITDA; and
5) Our commitments and contractual obligations.

All of these factors are important to an understanding of our ability to meet our current obligations, to fund working capital, to finance expansion either by internal means or through the acquisition of other businesses, or to pay down existing debt.

To summarize our current status, our operating activities provided cash of $16.7 million in the first six months of 2003 and $12.5 million in the first six months of 2002. At July 4, 2003, we had $181.2 million in cash and cash equivalents, net working capital of $196.5 million, term or revolving debt of $1,441.6 million and a stockholders' deficit of $750.7 million. Our long-term debt includes $520.7 million under our senior bank facilities; $191.2 million (net of discount) of our 12% first lien senior secured notes due 2010; $292.0 million (net of discount) of our 13% second lien senior secured notes due 2008; $260.0 million of our 12% senior subordinated notes due 2009; $133.4 million under a 10% junior subordinated note payable to Motorola due 2011; $23.4 million under a note payable to a Japanese bank due 2010; $20.0 million under a loan facility with a Chinese bank; and $0.9 million capital lease obligation. We were in compliance with all of the covenants contained in our various debt agreements as of July 4, 2003 and expect to remain in compliance over the next twelve months.

Sources and Uses of Cash

We require cash to fund our operating expenses, including working capital requirements and outlays for research and development, to make capital expenditures, strategic acquisitions and investments, and to pay debt service, including principal and interest and lease payments. Our principal sources of liquidity are cash on hand, cash generated from operations, and funds from external borrowings and equity issuances. In the near term, we expect to fund our primary cash requirements through cash generated from operations, cash and cash equivalents on hand, and targeted asset sales. Additionally, as part of our business strategy, we review acquisition and divestiture opportunities and proposals on a regular basis.

We believe that the key factors that could affect our internal and external sources of cash include:

- factors that affect our results of operations and cash flows, including reduced demand for our products resulting from the recent economic slowdown and actions taken by our customers to manage their inventories in line with incoming business, competitive pricing pressures, under-utilization of our manufacturing capacity, our ability to achieve further reductions in operating expenses, the impact of our restructuring program on our productivity, and our ability to make the research and development expenditures required to remain competitive in our business; and
- factors that affect our access to bank financing and the debt and equity capital markets that could impair our ability to obtain needed financing on acceptable terms or to respond to business opportunities and developments as they arise including interest rate fluctuations, our ability to maintain compliance with financial covenants under our existing credit facilities, and other limitations imposed by our credit facilities or arising from our substantial leverage.

Our ability to service our long-term debt, to remain in compliance with the various covenants and restrictions contained in our credit agreements and to fund working capital, capital expenditures and business development efforts will depend on our ability to generate cash from operating activities which is subject to, among other things, our future operating performance as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may be beyond our control. After giving effect to an offering of our common stock, the use of proceeds, the termination of the commitments under our existing $62.5 million revolving facility, the establishment of a new $25 million revolving facility and the roll over of outstanding letters of credit from our existing revolving facility to our new revolving facility, we expect to have $7.1 million of borrowing capacity available under our new revolving credit facility. As of January 9, 2003, we amended our primary foreign exchange hedging agreement to provide for termination if at anytime the amount available under our revolving credit facility is less than $2.5 million.

If we fail to generate sufficient cash from operations, we may need to raise additional equity or borrow additional funds to achieve our longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us. Although there can be no assurance, we believe that cash flow from operating activities coupled with existing cash balances will be adequate to fund our operating and capital needs as well as enable us to maintain compliance with our various debt agreements for the next twelve months. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

Key Events Affecting our Capital Structure

Issuance of Series A Cumulative Convertible Redeemable Preferred Stock. At June 29, 2001, we were not in compliance with minimum interest expense coverage ratio and maximum leverage ratio covenants under our senior bank facilities. On August 13, 2001, we received a waiver in respect of this noncompliance at June 29, 2001 and in respect of any future noncompliance with these covenants through December 31, 2002. In connection with this waiver, we amended our senior bank facilities. The key terms of this amendment are described in Note 9 “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this report. As a condition to the waiver and amendment, we were required to obtain $100.0 million through an equity investment from an affiliate of Texas Pacific Group. We satisfied this requirement on September 7, 2001, when we issued 10,000 shares of Series A Cumulative Convertible Redeemable Preferred Stock to an affiliate of Texas Pacific Group in exchange for $100 million ($99.2 million, net of issuance costs). The material terms of the preferred stock are summarized in Note 11 “Redeemable Preferred Stock” of the notes to our audited consolidated financial statements included elsewhere in this report.

Debt Refinancing in 2002. On May 6, 2002 we issued $300.0 million principal amount of second lien senior secured notes due 2008. The second lien senior secured notes were issued at a price of 96.902% of par and will mature on May 15, 2008. The second lien senior secured notes initially accrued interest at a rate of 12% per annum. Commencing February 6, 2003, the second lien senior secured notes began accruing interest at a rate of 13% per annum. This increased rate will remain in effect until maturity. Interest on the second lien senior secured notes is payable semi-annually in cash. The obligations under the second lien senior secured notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor Corporation (other than Semiconductor Components Industries, LLC, which is a co-issuer). The second lien senior secured notes and the guarantees thereof are secured on a second-priority basis by the assets that secure our senior bank facilities and they rank equal in right of payment with all of our and the guarantors’ existing and future senior indebtedness and senior to our and the guarantors’ existing and future senior subordinated and subordinated indebtedness and effectively junior to all of the liabilities of our subsidiaries that have not guaranteed such second lien senior secured notes. In connection with the offering of second lien senior secured notes, we amended our senior bank facilities to, among other things, permit the issuance of the second lien senior secured notes, make certain of the financial ratio maintenance requirements thereunder less restrictive and impose minimum EBITDA and cash requirements. (See Note 9 “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this report.) We used $278.6 million of net cash proceeds from the sale of the second lien senior secured notes to prepay a portion of our senior bank facilities.

Because the remaining principal amount of loans outstanding under our senior bank facilities was reduced below $750.0 million as a result of this refinancing, the supplemental interest charges thereon (described in Note 9 "Long-Term Debt" of the notes to our audited consolidated financial statements elsewhere in this report) were reduced from 3.0% to 1.0%. In connection with this refinancing, we wrote off $6.5 million of debt issuance costs.

Debt Refinancing in 2003. On March 3, 2003, we issued $200.0 million aggregate principal amount of first lien senior secured notes due 2010. The first lien senior secured notes were issued at a price of 95.467% of par value, bear interest at a rate of 12% per annum, payable semi-annually in cash, and will mature on March 15, 2010. The obligations under the first lien senior secured notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor Corporation (other than Semiconductor Components Industries, LLC, which is a co-issuer). The first lien senior secured notes and the guarantees thereof are secured on a first-priority basis by the assets that secure our senior bank facilities and they rank equal in right of payment with all of our and the guarantors' existing and future senior indebtedness and senior to our and the guarantors' existing and future senior subordinated and subordinated indebtedness and effectively junior to all of the liabilities of our subsidiaries that have not guaranteed such notes. In connection with the offering of the first lien senior secured notes, we further amended our senior bank facilities to, among other things:

- permit the issuance of the first lien senior secured notes,
- remove the requirement that we maintain certain minimum interest expense coverage ratios and do not exceed certain maximum leverage ratios,
- reduce to $140.0 million our minimum EBITDA requirement for any four consecutive fiscal quarters,
- reduce our permitted capital expenditures to $100.0 million per year (subject to certain increases for improved financial performance and carryovers from prior periods),
- permit the redemption of up to 35% of the senior secured first lien notes out of the net proceeds of equity offerings and
- convert $62.5 million of the outstanding loans under our revolving credit facility into a new tranche of term loans, as described above in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Structure—Cash Position and Cash Expenditures."

We used $180.9 million of net cash proceeds from the sale of the notes to prepay a portion of our senior bank facilities, including $25.0 million of which proceeds were used to repay borrowings under our revolving credit facility and permanently reduce the commitments thereunder by such amount. In connection with this refinancing, we wrote-off $3.5 million of debt issuance costs.

Amendment to Senior Bank Facilities, Additional Term Loan and New Revolving Facility. We have agreed with our lenders to amend our senior bank facilities, effective upon the satisfaction of the conditions specified below. The amendment will, among other things:

- permit us to obtain an additional term loan under our senior bank facilities in an amount up to $50 million, the entire amount of which we intend to borrow simultaneously with the completion of an offering of our common stock and which is expected to have terms similar to those of our existing tranche D term loan facility,
- permit us to apply the net proceeds from equity offerings by us or any of our subsidiaries and borrowings under the additional term loan facility to prepay scheduled principal installments of all term loan borrowings outstanding under our senior bank facilities in chronological order,
- reduce from 75% to 50% the percentage of net proceeds from future equity offerings by us or any of our subsidiaries that is required to be applied to prepay term loan borrowings outstanding under our senior bank facilities and

- permit us to obtain a new $25 million revolving facility that would mature on August 4, 2006, provide for the issuance of letters of credit in currencies other than U.S. dollars that are to be specified and in all other respects, have terms substantially similar to those of our existing revolving facility.

The effectiveness of the amendment is subject to, among other things, satisfaction before December 7, 2003 of the following conditions:

- our having obtained gross cash proceeds of not less than $150 million from a combination of (1) a public offering of our common stock and (2) borrowings under the additional term loan described above,
- our having applied 100% of the net proceeds from such offering of common stock and the proceeds from such borrowings (1) to repay all outstanding loans (and terminate the commitments) under our existing $62.5 million revolving facility, (2) to prepay in full our tranche A and tranche R term loan facilities and (3) to the extent of any excess net proceeds, to prepay scheduled principal installments of all remaining term loan facilities outstanding under our senior bank facilities in chronological order and
- our having established the new $25 million revolving facility described above.

We have obtained a commitment from JPMorgan Chase Bank, the administrative agent for our senior bank facilities, to provide an additional term loan of up to $50 million. We have also obtained commitments from JPMorgan Chase Bank and Morgan Stanley Senior Funding, Inc. to provide a new $25 million revolving facility. Simultaneously with the effectiveness of the amendment and termination of the commitments under our existing revolving facility, we intend to roll over letters of credit outstanding under our current revolving facility, which totaled $17.9 million as of September 9, 2003, into the new revolving facility.

Analysis of Cash Flows

Cash flow information for the years ended December 31, 2000, 2001 and 2002 and for the six months ended July 4, 2003 and June 28, 2002 is as follows (in millions):

	Year ended December 31,			Six months ended	
	2000	2001	2002	June 28, 2002	July 4, 2003
Cash flow from operating activities:					
Net income (loss)	$ 71.1	$ (831.4)	$ (141.9)	$ (81.8)	$ (108.0)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	167.5	177.1	148.0	74.1	72.6
Write-off of acquired in-process research and development	26.9	—	—	—	—
Loss on debt prepayment	29.2	—	6.5	6.5	3.5
Amortization of debt issuance costs and debt discount	5.9	6.0	8.1	3.6	4.6
Provision for excess inventories	44.1	50.9	16.0	14.7	6.3
Cumulative effect of accounting change	—	155.2	—	—	21.5
Non-cash impairment write-down of property, plant and equipment	—	56.2	12.4	8.4	10.5
Gain on sale of investment in joint venture	—	(3.1)	—	—	—
Non-cash interest on junior subordinated note payable to Motorola	9.6	10.7	11.7	5.6	6.5
Non-cash write down of intangible asset	—	—	—	—	20.8
Deferred income taxes	(11.6)	317.1	7.1	4.6	(2.5)
Stock compensation expense	0.7	5.0	4.5	1.3	0.1
Other	3.5	1.2	3.0	3.0	3.2
Changes in assets and liabilities:					
Receivables	3.5	134.5	22.4	(2.3)	(12.7)
Inventories	(76.5)	23.0	6.4	7.2	(18.4)
Other assets	(27.2)	(6.0)	(9.1)	—	4.1
Accounts payable	43.2	(63.2)	(35.9)	(15.4)	38.9
Accrued expenses	43.1	(62.3)	(6.3)	(10.9)	(16.0)
Income taxes payable	(4.9)	(14.6)	3.1	(2.7)	5.8
Accrued interest	(12.2)	5.7	19.8	16.5	(15.7)
Deferred income on sales to distributors	—	(82.8)	(28.6)	(24.1)	(6.5)
Other long-term liabilities	(3.7)	4.4	(0.8)	4.2	(1.9)
Net cash provided by (used in) operating activities	312.2	(116.4)	46.4	12.5	16.7
Cash flows through investing activities:					
Purchases of property, plant and equipment	(254.1)	(149.0)	(40.5)	(27.8)	(24.6)
Investment in business, net of cash acquired	(253.2)	—	—	—	—
Acquisition of minority interests in consolidated subsidiaries	(1.5)	(0.1)	—	—	(1.8)
Investments in and advances to joint ventures	(2.5)	(0.5)	—	—	—
Proceeds from sale of investment in joint venture	—	20.4	—	—	—
Proceeds from sales of property, plant and equipment	18.1	13.8	4.5	2.5	—
Net cash used in investing activities	(493.2)	(115.4)	(36.0)	(25.3)	(26.4)
Cash flows from financing activities:					
Proceeds from initial public offering, net of offering expenses	514.8	—	—	—	—
Proceeds from debt issuance, net of discount	—	—	290.7	290.7	190.9
Proceeds from senior credit facilities and other borrowings	236.6	134.5	—	—	—
Proceeds from issuance of convertible, redeemable preferred stock, net of issuance costs	—	99.2	—	—	—
Proceeds from issuance of common stock under the employee stock purchase plan	6.9	4.2	1.4	1.2	0.4
Proceeds from stock option exercises	0.9	0.9	1.2	0.7	0.3
Payment of capital lease obligation	—	(1.9)	(1.1)	(1.1)	—
Payment of debt issuance costs	(3.2)	(5.1)	(12.1)	(11.4)	(10.6)
Repayment of senior credit facilities, including prepayment penalty in 2000	(131.5)	(5.6)	(287.1)	(283.3)	(180.9)
Repayment of senior subordinated notes, including prepayment penalty	(156.8)	—	—	—	—
Redemption of redeemable preferred stock, including accrued dividends	(228.4)	—	—	—	—
Net cash provided by (used in) financing activities	239.3	226.2	(7.0)	(3.2)	0.1
Effect of exchange rate changes on cash and cash equivalents	(0.1)	0.8	1.0	0.9	0.4
Net increase (decrease) in cash and cash equivalents	58.2	(4.8)	4.4	(15.1)	(9.2)
Cash and cash equivalents, beginning of period	132.6	190.8	186.0	186.0	190.4
Cash and cash equivalents, end of period	$ 190.8	$ 186.0	$ 190.4	$ 170.9	$ 181.2

Cash Flow Activity for the First Six Months of 2003 and 2002. For the first six months of 2003 and 2002, we used $9.2 million and $15.1 million in cash, respectively. The first six months of 2003, as compared to the first six months of 2002, shows an improvement in net cash provided by operating activities of $4.2 million, an increase in the net cash used in investing activities of $1.1 million, and a decrease of $3.3 million in net cash used in financing activities.

We generated $16.7 million in net cash provided by operating activities during the first six months of 2003 compared to $12.5 million in net cash provided by operating activities in the first six months of 2002. This $4.2 million improvement is the result of reduced costs resulting from our restructuring program and working capital improvements, offset by increased interest payments (including supplemental interest payments) of $34.4 million in the first six months of 2003 and the receipt of $10.6 million in the first six months of 2002 related to a settlement with Motorola.

We used $26.4 million in net cash from investing activities in the first six months of 2003 as compared to $25.3 million in the first six months of 2002, both of which were due primarily to capital expenditures. Our need for incremental property, plant or equipment has been significantly reduced given the current level of business. Furthermore, our senior bank facilities restrict the amount of capital equipment we can purchase within certain periods. As a result, we have been selective in purchasing new equipment.

Financing activities during the first six months of 2003 have resulted in net cash provided of $0.1 million compared to cash used of $3.2 million in the first six months of 2002. Debt refinancings occurring in the first six months of 2003 and 2002 accounted for the majority of the cash flows during those periods, with the remainder due to proceeds from stock option exercises and the issuance of common stock under our employee stock purchase plan.

Cash Flow Activity for the Years Ended 2002, 2001 and 2000. For the years ended December 31, 2002, 2001 and 2000, we have provided $4.4 million, utilized $4.8 million and provided $58.2 million in cash, respectively. The makeup of the cash flow from operations, investing and financing activities has been quite different in these periods. The year ended December 31, 2002, as compared to the year ended December 31, 2001, shows an improvement in cash flows from operations of $162.8 million, a reduction in the net cash used in investing activities of $79.4 million, and a decrease of $233.2 million in cash flows from financing activities. The year ended December 31, 2001, as compared to the year ended December 31, 2000, shows a reduction in cash flows from operations of $428.6 million, a reduction in the net cash used in investing activities of $377.8 million, and a decrease of $13.1 million in cash flows from financing activities.

We generated $46.4 million in cash flow from operations during 2002, used $116.4 million of cash flow in operations in 2001 and generated $312.2 in cash flow from operations during 2000. The $162.8 million improvement in 2002 as compared to 2001 is primarily the result of reduced costs resulting from our restructuring program and reduced restructuring payments. The $428.6 million decline in 2001 as compared to 2000 is primarily the result of the downturn in the semiconductor industry in 2001.

In 2002, 2001 and 2000, we used $36.0 million, $115.4 million and $493.2 million, respectively, in net cash from investing activities. The decline was the result of lower capital equipment spending and the acquisition of Cherry Semiconductor Corporation in 2000. Our need for incremental property, plant or equipment has been significantly reduced given the current level of business. Furthermore, our senior bank facilities restrict the amount of capital equipment we can purchase within certain periods. As a result, we have been selective in purchasing new equipment.

In 2002, 2001 and 2000, financing activities have resulted in net cash used of $7.0 million, net cash provided of $226.2 million and net cash provided of $239.3 million, respectively. During 2002, we refinanced a portion of our long term debt by issuing $300.0 million of senior secured notes and using the net cash proceeds of $278.6 million (net of discount and issuance costs) and additional funds to prepay debt principal of $283.3 million of our senior bank facilities. During 2001 we drew on our $125.0 million revolving credit facility and received net proceeds of $99.2 million from the issuance of redeemable preferred stock to help fund the cash used in operations and equipment purchases. During 2000, we raised $514.8 million in net proceeds from our initial public offering of common stock and we raised $236.6 million from our senior credit facilities and other borrowings. We used a portion of such proceeds to prepay loans under our senior bank facilities, to redeem a portion of our senior subordinated notes and to redeem shares of our preferred stock.

EBITDA

While earnings before interest, taxes, depreciation and amortization ("EBITDA") is not intended to represent cash flow from operating activities as defined by generally accepted accounting principles and should not be considered as an alternative to cash flow as a measure of liquidity, we believe this measure is useful to investors to assess our ability to meet our future debt service, capital expenditure and working capital requirements. The following table sets forth our EBITDA for the years ended December 31, 2000, 2001 and 2002 and for the six months ended June 28, 2002 and July 4, 2003, with a reconciliation to cash flows provided by operating activities, the most directly comparable liquidity measure under generally accepted accounting principles:

	Year Ended December 31,			Six Months Ended	
	2000	2001	2002	June 28, 2002	July 4, 2003
Net income (loss)	$ 71.1	$ (831.4)	$ (141.9)	$ (81.8)	$ (108.0)
Plus:					
Depreciation and amortization	167.5	177.1	148.0	74.1	72.6
Interest expense, net of interest income	135.3	139.6	149.5	73.6	76.9
Income tax provision	39.0	345.8	9.5	8.1	4.5
EBITDA	$ 412.9	$ (168.9)	$ 165.1	$ 74.0	$ 46.0
Reconciliation of EBITDA to net cash provided by (used in) operating activities:					
EBITDA	$ 412.9	$ (168.9)	$ 165.1	$ 74.0	$ 46.0
Increase (decrease):					
Interest expense, net of interest income	(135.3)	(139.6)	(149.5)	(73.6)	(76.9)
Income tax provision (benefit)	(39.0)	(345.8)	(9.5)	(8.1)	(4.5)
Write-off of acquired in-process research and development	26.9	—	—	—	—
Loss on debt prepayment	29.2	—	6.5	6.5	3.5
Cumulative effect of accounting change	—	155.2	—	—	21.5
Amortization of debt issuance costs and debt discount	5.9	6.0	8.1	3.6	4.6
Provision for excess inventories	44.1	50.9	16.0	14.7	6.3
Non-cash impairment write-down of property, plant and equipment	—	56.2	12.4	8.4	10.5
Non-cash interest on junior subordinated note payable to Motorola	9.6	10.7	11.7	5.6	6.5
Non-cash impairment write down of other long-lived assets	—	—	—	—	21.3
Gain on sale of investment in joint venture	—	(3.1)	—	—	—
Deferred income taxes	(11.6)	317.1	7.1	4.6	(2.5)
Stock compensation expense	0.7	5.0	4.5	1.3	0.1
Other	3.5	1.2	3.0	3.0	2.7
Changes in operating assets and liabilities	(34.7)	(61.3)	(29.0)	(27.5)	(22.4)
Net cash provided by operating activities	$ 312.2	$ (116.4)	$ 46.4	$ 12.5	$ 16.7

Commercial Commitments and Contractual Obligations

Our principal outstanding contractual obligations relate to our senior bank facilities, other long-term debt, operating leases, purchase obligations, pension obligations and our redeemable preferred stock. The following tables summarize our commercial commitments and contractual obligations at July 4, 2003 and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

Amount of Commitment by Expiration Period

Commercial commitments	Total Amounts Committed	Remainder of 2003	2004	2005	2006	2007	2008 and Beyond
Standby letter of credit	$ 18.7	$ 9.6	$ 6.5	$ —	$ 0.6	$ —	$ 2.0
Total commercial commitments	$ 18.7	$ 9.6	$ 6.5	$ —	$ 0.6	$ —	$ 2.0

Payments Due by Period

Contractual obligations	Total Amounts Committed	Remainder of 2003	2004	2005	2006	2007	2008 and Beyond
Long-term debt:							
actual	$ 1,441.6	$ 12.3	$ 16.0	$ 155.8	$ 194.5	$ 176.8	$ 886.2
pro forma(1)	1,266.3	12.1	13.1	3.2	141.8	209.9	886.2
Operating leases	18.9	5.0	7.2	4.1	2.3	0.3	—
Purchase obligations	84.5	50.0	20.7	11.2	2.6	—	—
Other long-term obligations—pension plan	36.5	4.0	11.8	20.7	—	—	—
Redeemable preferred stock (including future dividends)	188.5	—	—	—	—	—	188.5
Total contractual cash obligations:							
actual	$ 1,770.0	$ 71.3	$ 55.7	$ 191.8	$ 199.4	$ 177.1	$ 1,074.7
pro forma(1)	1,594.7	71.1	52.8	39.2	146.7	210.2	1,074.7

(1) The pro forma figures in the table above show the actual payments due, as of July 4, 2003, for the periods specified, in each case after giving effect to an offering of our common stock, borrowings of $50 million under an additional term loan for which we have received commitments and the application of the proceeds therefrom as if they had occurred as of such date.

Our long-term debt includes $520.7 million under senior bank facilities, $191.2 million of senior secured notes (net of unamortized discount) due 2010, $292.0 million of senior secured notes (net of unamortized discount) due 2008, $260.0 million of senior subordinated notes due 2009, $133.4 million under the junior subordinated note payable to Motorola, $23.4 million under a note payable to a Japanese bank, $20.0 million under a loan facility with a Chinese bank, and $0.9 million capital lease obligation. In regards to our loan facility with a Chinese bank, we are in refinancing discussions with the bank at this time. Under the current agreement we have the ability to extend the maturity of this loan for three years under the same terms and conditions.

In the normal course of our business, we enter into various operating leases for equipment including our mainframe computer system, desktop computers, communications, foundry equipment and service agreements relating to this equipment.

In addition, we have the following purchase obligations at July 4, 2003:

	Total Amounts Committed	Remainder of 2003	2004	2005	2006	2007	2008 and Beyond
Capital purchase obligations	$ 1.1	$ 1.1	$ —	$ —	$ —	$ —	$ —
Foundry and inventory purchase obligations	35.8	32.8	3.0	—	—	—	—
Mainframe support	22.1	5.0	8.0	7.4	1.7	—	—
Various information technology and communication services	22.8	9.1	9.0	3.8	0.9	—	—
Other	2.7	2.0	0.7	—	—	—	—
	$ 84.5	$ 50.0	$ 20.7	$ 11.2	$ 2.6	$ —	$ —

Our other long-term commitments consist of the minimum funding requirements relating to our U.S. and foreign pension plans. In regards to the U.S. pension plan, we reevaluated our current actuarial assumptions in light of the actual returns experienced, current annuity rates and the expected termination of the U.S. pension plan as of December 31, 2004 with the subsequent payment of benefits in 2005. We expect pension expense to be approximately $6 million over the remaining life of the plan with a related cash funding requirement of $32 million. Upon the termination of the U.S. pension plan, we are under an obligation to ensure that the plan has assets sufficient to pay accrued benefits. (See Note 14 “Employee Benefit Plans” of the notes to our audited financial statements included elsewhere in this report.)

Our Series A Cumulative Convertible Redeemable Preferred Stock is redeemable at the holder’s option anytime after September 7, 2009. The preferred stock has a cumulative dividend payable quarterly in cash, at the rate of 8.0% per annum (or, if greater during the relevant quarterly period, in an amount equal to the value of the dividends that would be paid on the common stock then issuable upon conversion of the preferred stock), compounded to the extent not paid, and subject to restrictions under the Company’s senior bank facilities, senior subordinated notes and other documents relating to the Company’s indebtedness. The amount shown in the table above assumes no redemption of the preferred stock or payments of accrued dividends until September 7, 2009.

Off-Balance Sheet Arrangements

We are a party to a variety of agreements entered into in the ordinary course of business pursuant to which we may be obligated to indemnify the other parties for certain liabilities that arise out of or relate to the subject matter of the agreements. Some of the agreements entered into by us require us to indemnify the other party against losses due to intellectual property infringement, property damage including environmental contamination, personal injury, failure to comply with applicable laws, our negligence or willful misconduct, or breach of representations and warranties and covenants related to such matters as title to sold assets.

We are a party to various agreements with Motorola, a former affiliate, which were entered into in connection with our separation from Motorola. Pursuant to these agreements, we have agreed to indemnify Motorola for losses due to, for example, breach of representations and warranties and covenants, damages arising from assumed liabilities or relating to allocated assets, and for specified environmental matters. Our obligations under these agreements may be limited in terms of time and/or amount and payment by us is conditioned on Motorola making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow us to challenge Motorola’s claims.

We provide for indemnification of directors, officers and other persons in accordance with limited liability company agreements, certificates of incorporation, by-laws, articles of association or similar organizational documents, as the case may be. We maintain directors’ and officers’ insurance, which should enable us to recover a portion of any future amounts paid.

In addition to the above, from time to time we provide standard representations and warranties to counterparties in various contracts and also provides indemnities that protect the counterparties to these contracts in the event they suffer damages as a result of a breach of such representations and warranties or in certain other circumstances relating to the sale of securities or their engagement by us.

While our future obligations under certain agreements may contain limitations on liability for indemnification, other agreements do not contain such limitations and under such agreements it is not possible to predict the maximum potential amount of future payments due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under any of these indemnities have not had a material effect on our business, financial condition, results of operations or cash flows. Additionally, we do not believe that any amounts that we may be required to pay under these indemnities in the future will be material to our business, financial condition, results of operations or cash flows.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Under this standard, asset retirement obligations will be recognized when incurred at their estimated fair value. In addition, the cost of the asset retirement obligation will be capitalized as a part of the assets' carrying valued and depreciated over the assets' remaining useful life. We will be required to adopt SFAS No. 143 effective January 1, 2003. We do not expect the implementation of SFAS No. 143 to have a material effect on our results of operations.

We adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective January 1, 2002. SFAS No. 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. Our adoption of SFAS No. 144 did not impact our financial condition or results of operations.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods that does not meet the criteria in APB No. 30 for classification as an extraordinary item shall be reclassified. SFAS No. 145 also amends FASB Statement No. 13, "Accounting for Leases" and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. We adopted SFAS No. 145 effective January 1, 2003. The adoption of SFAS No. 145 required the reclassification within our consolidated statement of operations and comprehensive loss of losses on debt prepayments previously classified as extraordinary items which totaled $6.5 million for the quarter and six months ended June 28, 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by us after December 31, 2002. We applied the provisions of SFAS No. 146 to our 2003 restructuring activities.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment to FAS 123." SFAS No. 148 provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in annual and interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for our fiscal year 2002. The interim disclosure requirements were effective in the first quarter of 2003 and are provided in Note 6 “Loss per Common Share” of the notes to our audited consolidated financial statements included in this report. We have no plans to change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45 (“FIN No. 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately and such disclosures have been included in Note 4 “Balance Sheet Information” of the notes to our audited consolidated financial statements included elsewhere in this report. The adoption of FIN No. 45 did not have a material effect on our financial condition or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 (“FIN No. 46”), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.” FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In the second quarter of 2003, we adopted FIN No. 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.” We determined that our investment in Leshan-Phoenix Semiconductor Company Limited meets the definition of a variable interest entity as our economic interest in Leshan is proportionately greater than our ownership interest in Leshan and, therefore, our investment in Leshan should be consolidated under FIN No. 46. We had previously accounted for our investment in Leshan using the equity method. While consolidation of our investment in Leshan did not impact our previously reported net income (loss) or stockholders’ equity (deficit), financial information for periods after our August 4, 1999 recapitalization that appears in this report has been revised for comparative purposes as allowed by FIN No. 46.

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” SFAS No 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” SFAS No 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. We are currently evaluating the impact that this pronouncement will have on our financial condition and results of operations.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer that must be classified as liabilities. Such freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase the issuer’s equity shares by transferring assets, and certain obligations to issue a variable number of shares. SFAS No. 150 is effective immediately for all financial instruments entered into or modified after May 31, 2003. For all other instruments, SFAS No. 150 is effective at the beginning of the third quarter of 2003. We do not currently have any financial instruments that fall within the scope of SFAS No. 150.

EXHIBIT 99.2

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of ON Semiconductor Corporation

In our opinion, the accompanying consolidated balance sheet and the related statements of operations, of stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of ON Semiconductor Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 4 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets effective January 1, 2002 as well as its methods of accounting for sales to distributors, derivative financial instruments and hedging activities effective January 1, 2001.

As described in Note 22 to the consolidated financial statements, the Company has restated its consolidated financial statements to reflect the consolidation of its investment in Leshan-Phoenix Semiconductor Company Limited upon adoption of Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 in the second quarter of 2003. As also described in Note 22, the Company has reclassified losses on debt prepayments within its consolidated statement of operations.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona
February 5, 2003, except for Note 9
for which the date is March 3, 2003
and Note 22 for which the date is
September 2, 2003

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in millions, except share data)

	December 31, 2002	December 31, 2001
	(in millions, except share data)	
ASSETS		
Cash and cash equivalents	$ 190.4	$ 186.0
Receivables, net (including $4.7 and $22.0 due from Motorola)	115.4	135.6
Inventories, net	163.5	185.6
Other current assets	39.4	36.7
Deferred income taxes	6.4	9.2
Total current assets	515.1	553.1
Property, plant and equipment, net	585.3	686.5
Deferred income taxes	—	1.3
Goodwill	77.3	77.3
Intangible asset, net	26.7	38.6
Other assets	39.0	42.4
Total assets	$ 1,243.4	$ 1,399.2
LIABILITIES, MINORITY INTERESTS, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Accounts payable (including $0.1 and $4.0 payable to Motorola)	$ 74.1	$ 109.8
Accrued expenses (including $0.7 and $11.7 payable to Motorola)	100.6	105.0
Income taxes payable	11.0	8.0
Accrued interest	43.6	13.4
Deferred income on sales to distributors	70.8	99.4
Current portion of long-term debt	19.8	12.4
Total current liabilities	319.9	348.0
Long-term debt (including $126.9 and $115.2 payable to Motorola)	1,403.4	1,394.5
Other long-term liabilities	42.9	48.4
Deferred income taxes	2.2	—
Total liabilities	1,768.4	1,790.9
Commitments and contingencies (see Note 17)	—	—
Minority interests in consolidated subsidiaries	27.0	24.1
Series A cumulative convertible, redeemable preferred stock ($0.01 par value, 100,000 shares authorized, 10,000 shares issued and outstanding; 8% annual dividend rate; liquidation value—$100.0 plus $10.9 and $2.4 of accrued dividends)	110.1	101.6
Common stock ($0.01 par value, 500,000,000 shares authorized, 176,439,900 and 174,653,586 shares issued and outstanding)	1.8	1.7
Additional paid-in capital	737.4	738.8
Accumulated other comprehensive income (loss)	(34.3)	(32.8)
Accumulated deficit	(1,367.0)	(1,225.1)
Total stockholders' equity (deficit)	(662.1)	(517.4)
Total liabilities, minority interests, redeemable preferred stock and stockholders' equity (deficit)	$ 1,243.4	$ 1,399.2

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

(in millions, except per share data)

	Year Ended December 31,		
	2002	2001	2000
		(In millions except per share data)	
Revenues (including $88.3, $100.9, and $211.1 from Motorola)	$ 1,093.7	$ 1,223.2	$ 2,083.3
Cost of sales	795.9	995.9	1,354.2
Gross profit	297.8	227.3	729.1
Operating expenses:			
Research and development	67.9	80.9	69.2
Selling and marketing	61.2	74.8	100.1
General and administrative	102.1	130.9	233.4
Amortization of intangibles	11.9	22.6	16.8
Write-off of acquired in-process research and development	—	—	26.9
Restructuring, asset impairments and other	27.7	150.4	4.8
Total operating expenses	270.8	459.6	451.2
Operating income (loss)	27.0	(232.3)	277.9
Other income (expenses), net:			
Interest expense, net	(149.5)	(139.6)	(135.3)
Equity in earnings of joint ventures	(0.6)	—	1.1
Gain on sale of investment in joint venture	—	3.1	—
Loss on debt prepayment	(6.5)	—	(29.2)
Other income (expenses), net	(156.6)	(136.5)	(163.4)
Income (loss) before income taxes, minority interests and cumulative effect of accounting change	(129.6)	(368.8)	114.5
Income tax benefit (provision)	(9.5)	(345.8)	(39.0)
Minority interests	(2.8)	(0.4)	(4.4)
Net loss before cumulative effect of accounting change	(141.9)	(715.0)	71.1
Cumulative effect of accounting change (net of income taxes of $38.8)	—	(116.4)	—
Net income (loss)	(141.9)	(831.4)	71.1
Less: Accretion of beneficial conversion feature relating to convertible redeemable preferred stock	—	(13.1)	—
Less: Redeemable preferred stock dividends	(8.5)	(2.4)	(8.8)
Net income (loss) applicable to common stock	$ (150.4)	$ (846.9)	$ 62.3
Earnings (loss) per common share:			
Basic:			
Net income (loss) available to common stock before cumulative effect of accounting change	$ (0.86)	$ (4.21)	$ 0.39
Cumulative effect of accounting change	—	(0.67)	—
Net (loss) income applicable to common stock	$ (0.86)	$ (4.88)	$ 0.39
Diluted:			
Net income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.86)	$ (4.21)	$ 0.38
Cumulative effect of accounting change	—	(0.67)	—
Net (loss) income applicable to common stock	$ (0.86)	$ (4.88)	$ 0.38
Weighted average common shares outstanding:			
Basic	175.6	173.6	160.2
Diluted	175.6	173.6	165.6

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock					
	Number of Shares	At Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
			(In millions, except share data)			
Balances at December 31, 1999	136,666,666	$ 1.4	$ 204.2	$ 2.7	$ (456.0)	$ (247.7)
Shares issued in connection with initial public offering	34,500,000	0.3	514.4	—	—	514.7
Stock options exercised	601,646	—	0.9	—	—	0.9
Tax benefit of stock option exercises	—	—	3.3	—	—	3.3
Stock compensation expense	—	—	0.7	—	—	0.7
Redeemable preferred stock dividends	—	—	—	—	(8.8)	(8.8)
Shares issued under employee stock purchase plan	978,123	—	6.9	—	—	6.9
Comprehensive income (loss):						
Net income	—	—	—	—	71.1	71.1
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	(3.1)	—	(3.1)
Additional minimum pension liability	—	—	—	(0.3)	—	(0.3)
Other comprehensive loss	—	—	—	(3.4)		(3.4)
Comprehensive income	—	—	—	—	—	67.7
Balances at December 31, 2000	172,746,435	1.7	730.4	(0.7)	(393.7)	337.7
Stock options exercised	648,132	—	0.9	—	—	0.9
Tax benefit of stock option exercises	—	—	0.7	—	—	0.7
Stock compensation expense	—	—	5.0	—	—	5.0
Redeemable preferred stock dividends	—	—	(2.4)	—	—	(2.4)
Shares issued under the employee stock purchase plan	1,259,019	—	4.2	—	—	4.2
Beneficial conversion feature relating to convertible redeemable preferred stock	—	—	13.1	—	—	13.1
Accretion of beneficial conversion feature relating to convertible redeemable preferred stock	—	—	(13.1)	—	—	(13.1)
Comprehensive income (loss):						
Net loss	—	—	—	—	(831.4)	(831.4)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	(3.9)	—	(3.9)
Additional minimum pension liability	—	—	—	(13.5)	—	(13.5)
Cumulative effect of accounting change	—	—	—	(5.7)	—	(5.7)
Effects of cash flow hedges	—	—	—	(9.0)	—	(9.0)
Other comprehensive loss	—	—	—	(32.1)	—	(32.1)
Comprehensive loss	—	—	—	—	—	(863.5)
Balances at December 31, 2001	174,653,586	1.7	738.8	(32.8)	(1,225.1)	(517.4)
Stock options exercised	757,185	0.1	1.1	—	—	1.2
Tax benefit of stock option exercises	—	—	0.1	—	—	0.1
Stock compensation expense	—	—	4.5		—	4.5
Redeemable preferred stock dividends	—	—	(8.5)	—	—	(8.5)
Shares issued under the employee stock purchase plan	1,029,129	—	1.4	—	—	1.4
Comprehensive income (loss), net of tax:						
Net loss	—	—	—	—	(141.9)	(141.9)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	2.3	—	2.3
Additional minimum pension liability	—	—	—	(5.8)	—	(5.8)
Unrealized losses on deferred compensation plan investments	—	—	—	(0.6)	—	(0.6)
Effects of cash flow hedges	—	—	—	2.6	—	2.6
Other comprehensive loss				(1.5)	—	(1.5)
Comprehensive loss	—	—	—	—	—	(143.4)
Balances at December 31, 2002	176,439,900	$ 1.8	$ 737.4	$ (34.3)	$ (1,367.0)	$ (662.1)

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2002	2001	2000
		(in millions)	
Cash flows from operating activities:			
Net income (loss)	$ (141.9)	$ (831.4)	$ 71.1
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	148.0	177.1	167.5
Write-off of acquired in-process research and development	—	—	26.9
Loss on debt prepayment	6.5	—	29.2
Amortization of debt issuance costs and debt discount	8.1	6.0	5.9
Provision for excess inventories	16.0	50.9	44.1
Cumulative effect of accounting change	—	155.2	—
Non-cash impairment of property, plant and equipment	12.4	56.2	—
Non-cash interest on junior subordinated note payable to Motorola	11.7	10.7	9.6
Gain on sale of investment in joint venture	—	(3.1)	—
Deferred income taxes	7.1	317.1	(11.6)
Stock compensation expense	4.5	5.0	0.7
Other	3.0	1.2	3.5
Changes in assets and liabilities:			
Receivables	22.4	134.5	3.5
Inventories	6.4	23.0	(76.5)
Other assets	(9.1)	(6.0)	(27.2)
Accounts payable	(35.9)	(63.2)	43.2
Accrued expenses	(6.3)	(62.3)	43.1
Income taxes payable	3.1	(14.6)	(4.9)
Accrued interest	19.8	5.7	(12.2)
Deferred income on sales to distributors	(28.6)	(82.8)	—
Other long-term liabilities	(0.8)	4.4	(3.7)
Net cash provided by (used in) operating activities	46.4	(116.4)	312.2
Cash flows from investing activities:			
Purchases of property, plant and equipment	(40.5)	(149.0)	(254.1)
Investment in business, net of cash acquired	—	—	(253.2)
Acquisition of minority interests in consolidated subsidiaries	—	(0.1)	(1.5)
Investments in and advances to joint ventures	—	(0.5)	(2.5)
Proceeds from sale of investment in joint venture	—	20.4	—
Proceeds from sales of property, plant and equipment	4.5	13.8	18.1
Net cash provided by (used in) investing activities	(36.0)	(115.4)	(493.2)
Cash flows from financing activities:			
Proceeds from initial public offering, net of offering expenses	—	—	514.8
Proceeds from debt issuance, net of discount	290.7	—	—
Proceeds from senior credit facilities and other borrowings	—	134.5	236.6
Proceeds from issuance of convertible, redeemable preferred stock, net of issuance costs	—	99.2	—
Proceeds from issuance of common stock under the employee stock purchase plan	1.4	4.2	6.9
Proceeds from stock option exercises	1.2	0.9	0.9
Payment of debt issuance costs	(12.1)	(5.1)	(3.2)
Payment of capital lease obligation	(1.1)	(1.9)	—
Repayment of senior credit facilities, including prepayment penalty in 2000	(287.1)	(5.6)	(131.5)
Repayment of senior subordinated notes, including prepayment penalty	—	—	(156.8)
Redemption of redeemable preferred stock, including accrued dividends	—	—	(228.4)
Net cash provided by (used in) financing activities	(7.0)	226.2	239.3
Effect of exchange rate changes on cash and cash equivalents	1.0	0.8	(0.1)
Net increase (decrease) in cash and cash equivalents	4.4	(4.8)	58.2
Cash and cash equivalents, beginning of period	186.0	190.8	132.6
Cash and cash equivalents, end of period	$ 190.4	$ 186.0	$ 190.8

See accompanying notes to consolidated financial statements.

Note 1: Background and Basis of Presentation

ON Semiconductor Corporation, together with its wholly and majority-owned subsidiaries (the “Company”), is one of the largest independent suppliers of semiconductor components in the world. Formerly known as the Semiconductor Components Group of the Semiconductor Products Sector of Motorola, Inc., the Company was a wholly-owned subsidiary of Motorola Inc. (“Motorola”) prior to its August 4, 1999 recapitalization (the “Recapitalization”). The Company continues to hold, through direct and indirect subsidiaries, substantially all the assets and operations of the Semiconductor Components Group of Motorola’s Semiconductor Products Sector.

On August 4, 1999, the Company was recapitalized and certain related transactions were effected pursuant to an agreement among ON Semiconductor Corporation, its principal domestic operating subsidiary, Semiconductor Components Industries, LLC (“SCI LLC”), Motorola and affiliates of Texas Pacific Group (“TPG”). As a result of the Recapitalization, an affiliate of TPG owned approximately 91% and Motorola owned approximately 9% of the outstanding common stock of the Company. In addition, as part of these transactions, TPG received 1,500 shares and Motorola received 590 shares of the Company’s mandatorily redeemable preferred stock with a liquidation value of $209 million plus accrued and unpaid dividends. Motorola also received a $91 million junior subordinated note issued by SCI LLC. Cash payments to Motorola in connection with the Recapitalization were financed through equity investments by affiliates of TPG totaling $337.5 million, borrowings totaling $740.5 million under the Company’s $875 million senior bank facilities and the issuance of $400.0 million of 12% senior subordinated notes due August 2009. Because TPG’s affiliate did not acquire substantially all of the Company’s common stock, the basis of the Company’s assets and liabilities for financial reporting purposes was not impacted by the Recapitalization.

Note 2: Liquidity

During the year ended December 31, 2002, the Company incurred a net loss of $141.9 million compared to a net loss of $831.4 million in 2001 and net income of $71.1 million in 2000. The Company’s net results included restructuring, asset impairments and other of $27.7 million, $150.4 million and $4.8 million in 2002, 2001 and 2000, respectively, as well as interest expense of $149.5 million, $139.6 million and $135.3 million, respectively. The Company’s operating activities provided cash of $46.4 million in 2002 and $312.2 million in 2000 and used cash of $116.4 million in 2001.

At December 31, 2002, the Company had $190.4 million in cash and cash equivalents, net working capital of $195.2 million, term or revolving debt of $1,423.2 million and a stockholders’ deficit of $662.1 million. The Company’s long-term debt includes $701.6 million under its senior bank facilities; $291.4 million (net of discount) of its 12% senior secured notes due 2008; $260.0 million of its 12% senior subordinated notes due 2009; $126.9 million under a 10% junior subordinated note payable to Motorola due 2011; $23.3 million under a note payable to a Japanese bank due 2010; and $20.0 million under a loan facility with a Chinese bank. The Company was in compliance with all of the covenants contained in its various debt agreements as of December 31, 2002 and expects to remain in compliance over the next twelve months.

The Company’s ability to service its long-term debt, to remain in compliance with the various covenants and restrictions contained in its credit agreements and to fund working capital, capital expenditures and business development efforts will depend on its ability to generate cash from operating activities which is subject to, among other things, its future operating performance as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may beyond its control.

If the Company fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to the Company. Although there can be no assurance, management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund the Company's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2003. To the extent that results or events differ from the Company's financial projections or business plans, its liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its majority-owned subsidiaries. An investment in a 50%-owned joint venture is accounted for on the equity method. As described in Note 8, the Company sold its investment in the 50%-owned joint venture effective December 31, 2000. Investments in companies that represent less than 20% of the related voting stock are accounted for on the cost basis. All material intercompany accounts and transactions have been eliminated.

Reclassifications

Certain amounts have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates have been used by management in conjunction with the measurement of valuation allowances relating to receivables, inventories and deferred tax assets; reserves for customer incentives, warranties, restructuring charges and pension obligations; the fair values of financial instruments (including derivative financial instruments); and future cash flows associated with long-lived assets. Actual results could differ from these estimates.

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis), or market. The Company records provisions for slow moving inventories based upon a regular analysis of inventory on hand compared to historical and projected end user demand. Projected end user demand is generally based on sales during the prior twelve months.

These provisions can influence results from operations. For example, when demand for a given part falls, all or a portion of the related inventory is reserved, impacting cost of sales and gross profit. If demand recovers and the parts previously reserved are sold, a higher than normal margin will generally be recognized. General market conditions as well as the Company's design activities can cause certain of its products to become obsolete.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated over estimated useful lives of 30-40 years for buildings and 3-20 years for machinery and equipment using accelerated and straight-line methods. A vast majority of the machinery and equipment currently in use is depreciated on a straight-line basis over a useful life of 5 years. Expenditures for maintenance and repairs are charged to operations in the year in which the expense is incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized.

The Company evaluates the recoverability of the carrying amount of its property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Impairment is assessed when the undiscounted expected cash flows derived for an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in operating results. Judgment is used when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an impaired asset. The dynamic economic environment in which the Company operates and the resulting assumptions used to estimate future cash flows impact the outcome of these impairment tests.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of the Cherry acquisition described in Note 6 over the estimated fair value of the net assets acquired and was being amortized on a straight line basis over its estimated useful life of ten years until January 1, 2002 when the Company adopted Statement of Financial Accounting Standards (“SFAS”) 142, “Goodwill and Other Intangible Assets.” The Company also acquired certain intangible assets in the Cherry acquisition that are being amortized on a straight line basis over estimated useful lives of five years.

Under SFAS No. 142, goodwill is evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit’s goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit’s carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting unit’s goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The Company performs its annual impairment analysis during the fourth quarter of each year.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the terms of the underlying agreements. Upon prepayment of debt, the related unamortized debt issuance costs are charged to operations. Amortization of debt issuance costs is included in interest expense while the unamortized balance is included in other assets.

Revenue Recognition

The Company generates revenue from sales of its semiconductor products to original equipment manufacturers, electronic manufacturing service providers, and distributors. The Company recognizes revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the customer net of provisions for related sales returns and allowances.

Prior to January 1, 2001, the Company recognized revenue on distributor sales when title passed to the distributor. Provisions were recorded at that time for estimated sales returns as well as for other related sales costs and allowances. Effective January 1, 2001, the Company changed its revenue recognition policy for distributor sales so that the related revenues are now deferred until the distributor resells the product to the end user. This change eliminated the need to provide for estimated sales returns from distributors. Title to products sold to distributors typically passes at the time of shipment by the Company so the Company records accounts receivable for the amount of the transaction, reduces its inventory for the products shipped and defers the related margin in the consolidated balance sheet. The Company recognizes the related revenue and margin when the distributor sells the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

Research and Development Costs

Research and development costs are expensed as incurred.

Stock-Based Compensation

The Company accounts for employee stock options relating to its common stock in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25")") and provides the pro forma disclosures required by SFAS No. 123 "Accounting for Stock Based Compensation" ("SFAS No. 123"). The Company measures compensation expense relating to non-employee stock awards in accordance with SFAS No. 123.

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net income (loss) for 2002, 2001, and 2000 would have been reduced (increased) to the pro forma amounts indicated below (in millions except share data):

	Year Ended December 31,		
	2002	2001	2000
Net income (loss), as reported	$(141.9)	$(831.4)	$71.1
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	4.5	3.7	0.5
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(21.3)	(18.6)	(7.4)
Pro forma net income (loss)	$(158.7)	$(846.3)	$64.2
Earnings per share:			
Basic—as reported	$ (0.86)	$ (4.88)	$0.39
Basic—pro forma	$ (0.95)	$ (4.96)	$0.35
Diluted—as reported	$ (0.86)	$ (4.88)	$0.38
Diluted—pro forma	$ (0.95)	$ (4.96)	$0.33

The fair value of each option grant has been estimated at the date of grant while the fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan has been estimated at the beginning of the respective offering periods, both using a Black-Scholes option-pricing model with the following weighted-average assumptions:

Employee Stock Options	2002	2001	2000
Expected life (in years)	5	5	5
Risk-free interest rate	4.15%	4.82%	6.41%
Volatility	0.70	0.70	0.60

Employee Stock Purchase Plan	2002	2001	2000
Expected life (in years)	0.25	0.25	0.33
Risk-free interest rate	1.71%	4.26%	6.20%
Volatility	0.70	0.70	0.60

The weighted-average estimated fair value of employee stock options granted during 2002, 2001 and 2000 was $1.91, $3.25 and $8.04 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during 2002, 2001 and 2000 was $0.60, $1.24 and $3.73, respectively.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized.

In determining the amount of the valuation allowance, estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction are considered. If all or a portion of the remaining deferred tax assets will not be realized, the valuation allowance will be increased with a charge to income tax expense. Conversely, if the Company will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. In the fourth quarter of 2001, a valuation allowance was established for the majority of the Company’s deferred tax assets Additionally, throughout 2002, no incremental deferred tax benefits were recognized. The Company’s ability to utilize its deferred tax assets and the continuing need for a related valuation allowance are monitored on an ongoing basis.

Foreign Currencies

Most of the Company’s foreign subsidiaries deal primarily in U.S. dollars and as a result, utilize the dollar as their functional currency. For the translation of financial statements of these subsidiaries, assets and liabilities that are receivable or payable in cash are translated at current exchange rates while inventories and other non-monetary assets are translated at historical rates. Gains and losses resulting from the translation of such financial statements are included in the operating results, as are gains and losses incurred on foreign currency transactions.

The Company's remaining foreign subsidiaries utilize the local currency as their functional currency. The assets and liabilities of these subsidiaries are translated at current exchange rates while revenues and expenses are translated at the average rates in effect for the period. The related translation gains and losses are included in accumulated other comprehensive income (loss) within stockholder's equity (deficit).

Defined Benefit Plans

The Company maintains pension plans covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increase for plan employees. All of these assumptions are based upon management's judgement, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact the future expense recognition and cash funding requirements of our pension plans.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Under this standard, asset retirement obligations will be recognized when incurred at their estimated fair value. In addition, the cost of the asset retirement obligation will be capitalized as a part of the assets' carrying valued and depreciated over the assets' remaining useful life. The Company will be required to adopt SFAS No. 143 effective January 1, 2003. The Company does not expect the implementation of SFAS No. 143 to have a material effect on its results of operations.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective January 1, 2002. SFAS No. 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company's adoption of SFAS No. 144 did not impact its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment to FAS 123." SFAS No. 148 provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in annual and interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for the Company's fiscal year 2002. The interim disclosure requirements are effective for the first quarter of fiscal year 2003. The Company has no plans to change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately and such disclosures have been included in Note 7 "Balance Sheet Information." The Company does not expect the adoption of FIN No. 45 to have a material effect on its financial condition or results of operations.

Note 4: Accounting Changes

Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." The provisions of SFAS No. 142 prohibit the amortization of goodwill and indefinite-lived intangible assets and require that such assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), require that reporting units be identified for the purpose of assessing potential future impairments of goodwill and remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

The Company's goodwill at January 1, 2002 totaled $77.3 million and relates to the Cherry acquisition described in Note 6. As a result of the adoption of SFAS No. 142, the Company discontinued amortization of the Cherry goodwill at the beginning of 2002. During the first quarter of 2002, the Company identified its various reporting units, which correspond with its four product lines, and allocated its assets and liabilities to such reporting units. The goodwill relating to the Cherry acquisition was specifically identified with and included in the Company's Power Management and Standard Analog reporting unit. During the second quarter of 2002, the Company completed the first step of its transitional goodwill impairment test and determined that the estimated fair value of the Power Management and Standard Analog reporting unit as of January 1, 2002 exceeded the reporting unit's carrying amount by a substantial amount. As a result, an impairment of the Cherry goodwill as of that date was not indicated and completion of the second step test was not required. The Company updated its goodwill impairment analysis during the fourth quarter of 2002 and determined that a related impairment did not exist.

The following table, with comparable actual amounts, sets forth the pro forma effects on net income (loss) and earnings per share assuming that the Company had adopted the provisions of SFAS No. 142 at the date of the Cherry acquisition in April 2000:

	Year Ended December 31,				
	As reported 2002	As reported 2001	Pro forma 2001	As reported 2000	Pro forma 2000
Reported net income (loss) before cumulative effect of accounting change	$ (141.9)	$ (715.0)	$ (715.0)	$ 71.1	$ 71.1
Add back: Goodwill amortization, net of tax			10.7		7.7
Pro forma net income (loss) before cumulative effect of accounting change			$ (704.3)		$ 78.8
Reported net income (loss)	$ (141.9)	$ (831.4)	$ (831.4)	$ 71.1	$ 71.1
Add back: Goodwill amortization, net of tax			10.7		7.7
Pro forma net income (loss)			$ (820.7)		$ 78.8
Reported basic earnings (loss) per share before cumulative effect of accounting change	$ (0.86)	$ (4.21)	$ (4.21)	$ 0.39	$ 0.39
Add back: Goodwill amortization, net of tax			0.06		0.05
Pro forma basic earnings (loss) per share before cumulative effect of accounting change			$ (4.15)		$ 0.44
Reported basic earnings (loss) per share	$ (0.86)	$ (4.88)	$ (4.88)	$ 0.39	$ 0.39
Add back: Goodwill amortization, net of tax			0.06		0.05
Pro forma basic earnings (loss) per share			$ (4.82)		$ 0.44
Reported diluted earnings (loss) per share before cumulative effect of accounting change	$ (0.86)	$ (4.21)	$ (4.21)	$ 0.38	$ 0.49
Add back: Goodwill amortization, net of tax			0.06		0.05
Pro forma diluted earnings (loss) per share before cumulative effect of accounting change(1)			$ (4.15)		$ 0.53
Reported diluted earnings (loss) per share	$ (0.86)	$ (4.88)	$ (4.88)	$ 0.38	$ 0.38
Add back: Goodwill amortization, net of tax			0.06		0.05
Pro forma diluted earnings (loss) per share(1)			$ (4.82)		$ 0.42

(1) Certain amounts may not total due to rounding of individual components.

Revenue Recognition

Sales are made to distributors under agreements that allow certain rights of return and price protections on products that are not resold by such distributors. Prior to January 1, 2001, the Company recognized revenue on distributor sales when title passed to the distributor. Provisions were also recorded at that time for estimated sales returns from our distributors on these unsold products. Effective January 1, 2001, the Company changed its revenue recognition method on sales to distributors so that such revenues are recognized at the time the distributor sells the Company’s products to the end customer. Title to products sold to distributors typically passes at the time of shipment by the Company so the Company records accounts receivable for the amount of the transaction, reduces its inventory for the products shipped and defers the related margin in the consolidated balance sheet. The Company recognizes the related revenue and margin when the distributor sells the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

Management believes that this accounting change was to a preferable method because it better aligns reported results with, focuses the Company on, and allows investors to better understand, end user demand for the products the Company sells through distribution. Additionally, the timing of revenue recognition is no longer influenced by the distributor's stocking decisions. This revenue recognition policy and manner of presentation is commonly used in the semiconductor industry.

The impact of the accounting change for periods prior to 2001 was a charge of $155.2 million ($116.4 million or $0.67 per share net of income taxes) and is reflected as the cumulative effect of change in accounting principle in the Company's consolidated statement of operations and comprehensive loss for the year ended December 31, 2001. The accounting change resulted in an increase in revenues of $116.6 million and a reduction in net loss of $53.1 million ($0.30 per share) for the year ended December 31, 2001.

The estimated pro forma effects of the accounting change for the year ended December 31, 2000 are as follows (in millions except per share data):

As reported:	
Revenues	$2,073.9
Net income (loss)	71.1
Basic net income (loss) per share	$ 0.39
Diluted net income (loss) per share	$ 0.38
Pro forma amounts reflecting the accounting change applied retroactively:	
Revenues	$1,958.7
Net income (loss)	30.8
Basic net income (loss) per share	$ 0.14
Diluted net income (loss) per share	$ 0.13

Derivatives Instruments and Hedging Activities

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which establishes standards for the accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and hedging activities effective January 1, 2001.

Upon the adoption, the Company recorded an after-tax charge of approximately $3.4 million to accumulated other comprehensive income (loss). This charge consisted of an approximate $2.1 million adjustment to record the Company's interest rate swaps in the consolidated balance sheet at their estimated fair values as well as the write-off of an approximate $3.5 million deferred charge relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under the Company's senior bank facilities, both before income taxes of approximately $2.2 million.

The Company uses forward foreign currency contracts to reduce its overall exposure to the effects of foreign currency fluctuations on its results of operations and cash flows. The fair value of these derivative instruments are recorded as assets or liabilities with gains and losses offsetting the losses and gains on the underlying assets or liabilities. The adoption of SFAS 133 did not impact the Company's accounting and reporting for these derivative instruments.

Note 5: Restructuring, Asset Impairments and Other

The activity related to the Company's restructuring, asset impairments and other is as follows (in millions):

	Reserve Balance at 12/31/2000	2001 Charges	2001 Usage	Reserve Balance at 12/31/2001	2002 Charges	2002 Usage	2002 Adjustments	Reserve Balance at 12/31/02
	$ 0.7	$ —	$ (0.7)	$ —	—	—	—	$ —
December 2002								
Cash employee separations charges					10.1	(0.2)	—	9.9
Cash exit costs					1.8	—	—	1.8
Non-cash fixed asset write-offs					1.0	(1.0)	—	—
December 2002 Restructuring reserve balance	—			—				11.7
June 2002								
Cash employee separations charges	—	—	—	—	2.9	(2.5)	—	0.4
Cash exit costs	—	—	—	—	2.8	(1.3)	—	1.5
Non-cash fixed asset write-offs	—	—	—	—	8.4	(8.4)	—	—
Non-cash stock compensation charges	—	—	—	—	1.0	(1.0)	—	—
June 2002 Restructuring reserve balance	—			—				1.9
March 2002								
Cash employee separations charges	—	—	—	—	7.0	(4.3)	0.3	3.0
Non-cash stock compensation charges	—	—	—	—	0.2	(0.2)	—	—
March 2002 Restructuring reserve balance	—			—				3.0
December 2001								
Cash employee separations charges	—	4.0	(1.8)	2.2	—	(2.1)	—	0.1
Non-cash fixed asset write-offs	—	11.1	(11.1)	—	—	—	—	—
Non-cash stock compensation and pension charges	—	1.5	(1.5)	—	—	—	—	—
December 2001 Restructuring reserve balance	—			2.2				0.1
June 2001								
Cash employee separations charges	—	36.4	(29.6)	6.8	—	(5.7)	0.6	1.7
Cash exit costs	—	10.0	—	10.0	—	(8.1)	(0.8)	1.1
Fixed asset write-offs	—	42.2	(42.2)	—	—	—	—	—
Stock compensation and pension charges	—	7.2	(7.2)	—	—	—	—	—
June 2001 Restructuring reserve balance	—			16.8				2.8
March 2001								
Cash employee separations charges	—	31.3	(30.5)	0.8	—	(0.7)	(0.1)	—
Non-cash fixed asset write-offs	—	2.9	(2.9)	—	—	—	—	—
March 2001 Restructuring reserve balance	—			0.8				—
	$ 0.7	$ 146.6	$ (127.5)	$ 19.8	$ 35.2	$ (35.5)	$ (0.0)	$ 19.5

The following table reconciles the restructuring, asset impairments and other activity in the table above to the "Restructuring, asset impairments and other" caption on the Statement of Operations and Comprehensive Loss for the years ended December 31, 2002 and 2001, respectively (in millions):

	Year Ended December 31, 2002
2002 restructuring, asset impairments and other charges	$ 35.2
Plus: Additional charges related to Guadalajara (June 2001 Restructuring) and France (March 2002 Restructuring)	1.9
Less: Reserves released during the period	(1.9)
Plus: Charges related to the termination of executive officers (December 2002)	4.9
Less: Motorola gain	(12.4)
Restructuring, asset impairments and other	$ 27.7

	Year Ended December 31, 2001
2001 restructuring, asset impairments and other charges	$ 146.6
Plus: Charges related to the termination of an executive officer (March 2001)	3.8
Restructuring, asset impairments and other	$ 150.4

December 2002 Restructuring, Asset Impairments and Other

In December 2002, the Company recorded $12.6 million (net of a $0.6 adjustment) restructuring, asset impairments and charges. The charges included $10.1 million to cover employee separation costs relating the termination of approximately 300 employees, $1.0 million of asset impairments and approximately $1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets. The headcount reductions began in the first quarter of 2003 and are expected to be completed by December 2003 and will impact both manufacturing and non-manufacturing personnel mainly in the United States. The asset impairments relate to the closure of a production line and an abandoned capital equipment project in the Czech Republic. The charge also included an additional $0.3 million reserve related to headcount reduction in Toulouse, France that was part of the March 2002 restructuring program. The $0.6 adjustment related to release of previous reserves associated with our March 2001 and June 2001 restructuring programs due the Company's analysis estimated costs to complete those programs. As of December 31, 2002 the remaining liability relating to this restructuring was $11.7 million.

In December 2002, the Company also recorded a $4.9 million charge to cover the costs associated with the separation of two of its executive officers. In connection with the separation, the Company reserved $2.0 million related to the cash portion of the related separation agreements. In addition, the Company agreed to modify the vesting and exercise period for a portion of the executives' stock options. This modification resulted in a non-cash stock compensation charge of $2.9 million with an offsetting credit to additional paid-in capital.

June 2002 Restructuring, Asset Impairments and Other

In June 2002, the Company recorded charges totaling $16.7 million for costs associated with its worldwide restructuring programs. The charges included $3.9 million to cover employee separation costs associated with the termination of 79 U.S. employees, $2.8 million for exit costs consisting primarily of manufacturing equipment and supply contract termination charges, and $8.4 million for equipment write-offs that were charged directly against the related assets. An additional $1.0 million in exits costs and $0.6 million in employee separation costs were accrued relating to the closure of the Company's Guadalajara, Mexico manufacturing facility that was part of the June 2001 restructuring described below.

The employee separation costs reflected further reductions in general and administrative staffing levels and included $1.0 million of non-cash stock compensation charges associated with the modification of stock options for certain terminated employees. As of December 31, 2002, all impacted employees had been terminated, and the Company currently expects that the remaining employee separation cost reserve of $0.4 million will be paid out by June 30, 2003.

As a result of continuing economic conditions, the Company determined that certain manufacturing equipment purchase and supply agreements were no longer economical to complete and recorded estimated termination charges of $2.8 million during the second quarter of 2002. As of December 31, 2002, the Company had settled certain of these obligations with payments of $1.3 million and is currently in discussions to settle its remaining obligations.

During the second quarter of 2002, the Company identified certain manufacturing equipment that would no longer be used internally and recorded a charge of $7.0 million to write-down the remaining carrying value to its estimated net realizable value. Additionally, the Company determined that it would not invest the capital required to complete an equipment project and recorded a charge of $1.4 million to write-off the carrying value of the related project.

During the second quarter of 2002, the Company reached a settlement of various contractual issues with Motorola in exchange for a cash payment from Motorola of $10.6 million which resulted in a related gain of $12.4 million (see Note 18 "Related Party Transactions" for further details of the Motorola settlement). The Company also recorded a $1.2 million reversal of amounts previously provided in connection with the June 2001 restructuring program as a result of favorable negotiated contract termination costs.

March 2002 Restructuring

In March 2002, the Company recorded a $7.1 million (net of a $0.1 million adjustment) charge to cover employee separation costs relating to the termination of approximately 72 employees. Approximately $5.0 million of this charge is attributable to employee terminations resulting from the Company's decision to relocate its European administrative functions from Toulouse, France to Roznov, Czech Republic and Piestany, Slovakia. The relocation of these functions is currently expected to be completed by June 30, 2003. The remaining $2.2 million relates to reductions in selling, general and administrative personnel primarily in the U.S. The March 2002 charge also included $0.2 million of non-cash employee stock compensation expense associated with the modification of stock options for certain terminated employees. As discussed previously, the Company recorded an additional $0.3 million in employee separation costs relating to the relocation of the administrative functions in Toulouse, France during the fourth quarter of 2002 as a result of its reevaluation of remaining costs to be incurred. As of December 31, 2002, 51 employees have been terminated under this program and the Company currently expects that the remaining terminations will be completed by June 30, 2003. As of December 31, 2002 the remaining liability relating to this restructuring was $3.0 million.

December 2001 Restructuring, Asset Impairments and Other

In December 2001, the Company recorded charges totaling $16.6 million for costs associated with its worldwide restructuring programs. The charges included $5.5 million to cover employee separation costs associated with the termination of 50 employees as well as $11.1 million for property and equipment write-offs that were charged directly against the related assets.

The employee separation costs reflected reductions in selling, general and administrative staffing levels in the U.S., United Kingdom, Germany, France and Singapore and included $0.2 million of non-cash charges associated with the modification of stock options for certain terminated employees as well as $1.3 million for additional pension charges related to the terminated employees. (The additional pension charge is reflected in the Company's accrued pension liability in the consolidated balance sheet.) As of December 31, 2002, all impacted employees had been terminated and the Company currently expects that the remaining reserve of $0.1 million will be paid out by March 2003.

The $11.1 million charge related to the write-off of certain property and equipment located in Phoenix, Arizona that the Company determined would no longer be utilized as a result of the its restructuring activities.

June 2001 Restructuring, Asset Impairments and Other

In June 2001, the Company recorded charges totaling $95.8 million for costs associated with its worldwide restructuring programs. These programs were in response to rapidly changing economic circumstances requiring the Company to rationalize its manufacturing and distribution operations to meet declining customer demand. The programs included the phasing out of manufacturing operations at the Company's Guadalajara, Mexico facility by June 2002, transferring certain manufacturing activities performed at the Company's Aizu, Japan and Seremban, Malaysia facilities to other Company-owned facilities or to third party contractors by June 2002 and December 2001, respectively, and the shutdown of the Company's Hong Kong Distribution Center and the transfer of related functions to its Singapore Distribution Center. The charge included $36.4 million to cover employee separation costs associated with the termination of approximately 3,200 employees, $1.1 million of non-cash charges associated with the modification of stock options for certain terminated employees and $6.1 million for additional pension charges related to terminated employees. (The additional pension charge is reflected in the Company's accrued pension liability in the consolidated balance sheet). As of December 31, 2002, all but 10 employees had been terminated under the June 2001 restructuring program. The remaining employees are located at the Company's Guadalajara facility. Manufacturing operations in Guadalajara ceased in June 2002 as originally planned; however, various administrative activities relating to the plant closure remain. The Company currently expects that these activities will be completed by March 31, 2003.

The planned discontinuation of manufacturing activities triggered an impairment analysis of the carrying value of the related assets and resulted in the Company recording asset impairment charges totaling $42.2 million. This charge included $31.6 million related to the Guadalajara manufacturing facility, $4.2 million related to the Aizu, Japan 4-inch wafer fabrication line and $2.2 million related to the Seremban assembly and test facility. The Company measured the amount of each asset impairment by comparing the carrying value of the respective assets to the related estimated fair value. The Company estimated future net cash flows for the period of continuing manufacturing activities (June 2002 for Guadalajara and Aizu, December 31, 2001 for Seremban) for each group of assets using price, volume, cost and salvage value assumptions that management considered to be reasonable in the circumstances. The impairment charges were recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value. The related assets have been sold to third parties at amounts that approximated their estimated fair values, were transferred to other manufacturing facilities at their previously existing carrying values or are currently held for sale. The only remaining assets to be disposed of under the June 2001 restructuring program are the land and building at the Guadalajara manufacturing facility. The Company is currently evaluating offers for these assets and, based on these offers, expects that the carrying value will be fully realized. The charge also included $4.2 million for the write-off of assets that will no longer be used by the Company as a result of the June 2001 restructuring program.

The June 2001 charge also included $10.0 million to cover certain exit costs relating to facility closure and contract terminations including $2.8 million for expected facility clean up activities, $1.0 million for equipment disposal fees, $2.0 million for equipment purchase cancellations and $4.2 million for other contract cancellations. As discussed previously, the Company recorded an additional $1.0 million in exit costs and $0.6 in employee separation costs relating to the Guadalajara manufacturing facility during the second quarter of 2002 as a result of its reevaluation of remaining costs to be incurred with respect to the closure of that facility. As previously mentioned, the Company currently expects that the remaining exit activities will be completed by March 31, 2003. As of December 31, 2002 the remaining liability relating to this restructuring program was $2.8 million.

March 2001 Restructuring, Asset Impairments and Other

In March 2001, the Company recorded charges totaling $34.2 million for costs associated with its worldwide restructuring programs. The charges included $31.3 million to cover employee separation costs associated with the termination of 1,100 employees as well as $2.9 million for equipment write-offs that were charged directly against the related assets.

The employee separation costs reflected reductions in manufacturing, selling, general and administrative staffing levels in the U.S., Mexico, the Philippines and Malaysia as well as non-cash charges associated with the modification of stock options for certain terminated employees. All impacted employees had been terminated and the Company released the remaining $0.1 million reserve to income during the second quarter of 2002.

The March 2001 charge included property and equipment write downs of $2.9 million relating to assets at the previously mentioned locations that could not be utilized or transferred to other locations.

Also in March 2001, the Company recorded a $3.8 million charge to cover costs associated with the separation of one of the Company's executive officers. In connection with the separation, the Company paid the former executive officer $1.9 million. In addition, the Company agreed to accelerate the vesting of the remaining stock options to purchase common stock and to allow such options to remain exercisable for the remainder of their ten-year term. The Company recorded a non-cash charge of $1.9 million related to modification of these options with an offsetting credit to additional paid-in capital.

2000 Restructuring, Asset Impairments and Other

During 2000, the Company recorded a $5.6 million charge to cover costs associated with a restructuring program at its manufacturing facility in Guadalajara, Mexico. The charge included $3.2 million to cover employee separation costs associated with the termination of approximately 500 employees and $2.4 million for asset impairments that were charged directly against the related assets. In September 2000, the Company completed its evaluation of the costs to be incurred and released $0.8 million of the remaining reserve for employee separation costs to income. As of December 31, 2001, there was no remaining liability relating to the 2000 restructuring program.

Note 6: Acquisition

On April 3, 2000, the Company acquired all of the outstanding capital stock of Cherry Semiconductor Corporation ("Cherry") for approximately $253.2 million in cash (including acquisition related costs), which was financed with cash on hand and borrowings of $220.0 million under the Company's senior bank facilities. Cherry, which was renamed Semiconductor Components Industries of Rhode Island, Inc., designs and manufactures analog and mixed signal integrated circuits for the power management and automotive markets, and had revenues for its fiscal year ended February 29, 2000 of $129.1 million.

The Cherry acquisition was accounted for using the purchase method of accounting and, as a result, the purchase price and related costs were allocated to the estimated fair value of assets acquired and liabilities assumed at the time of the acquisition based on management estimates as follows (in millions):

Fair value of tangible net assets	$ 71.3
Developed technology	59.3
In-process research and development	26.9
Assembled workforce	10.0
Excess of purchase price over estimated fair value of net assets acquired (goodwill)	85.7
	$253.2

Developed technology is being amortized on a straight-line basis over an estimated useful life of five years. Goodwill was being amortized on a straight-line basis over an estimated useful life of ten years; however, as mentioned previously, such amortization was discontinued January 1, 2002 upon the adoption of SFAS 142. Additionally, assembled workforce was being amortized over an estimated useful life of five years, however assembled workforce does not meet the requirements for an intangible asset apart from goodwill. Accordingly, upon adoption of SFAS 142, the Company reclassified the unamortized balance of assembled workforce to goodwill and the related amortization was discontinued.

The fair value of the acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. Significant assumptions that had to be made in using this approach included revenue and operating margin projections and determination of the applicable discount rate. The fair value of the acquired in-process research and development was based on sales forecasts and cost assumptions projected to be achievable by Cherry on a stand-alone basis. Operating margins were based on cost of goods sold and selling, general and administrative expenses as a percentage of revenues. All projected revenue and cost information was based on historical results and trends and did not include any synergies or cost savings that may result from the acquisition. The rate used to discount future projected cash flows resulting from the acquired in-process research and development was 20%, which was derived from a weighted average cost of capital analysis increased to reflect additional risks inherent in the development life cycle.

At the date of acquisition, in-process research and development consisted of sixty-five projects that had not yet reached technological feasibility and for which no alternative future uses had been identified. Accordingly, the estimated fair value of these projects was expensed as of the acquisition date. Such projects were approximately 70% to 80% complete at the date of the acquisition. The estimated cost to complete these projects at that date was approximately $4.1 million. Of the sixty-five projects in process at the date of acquisition, the Company completed thirty-one projects, abandoned twenty-nine projects and are in the process of completing the remaining five projects, which have an estimated completion cost of $0.5 million. Subsequent to the acquisition date, the Company experienced an industry downturn that required it to scale back research and development activities. Due to the decline in product demand subsequent to the acquisition, 2002 revenues associated with the completed projects were approximately $12.5 million, or 30% of the amount originally forecasted for all acquired in-process research and development projects at the date of acquisition.

Note 7: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31, 2002	December 31, 2001
Receivables, net:		
Accounts receivable	$ 117.3	$ 137.9
Less: Allowance for doubtful accounts	(1.9)	(2.3)
	$ 115.4	$ 135.6
Inventories, net:		
Raw materials	$ 15.5	$ 13.8
Work in process	109.8	142.3
Finished goods	81.9	80.7
Total inventory	207.2	236.8
Less: Inventory reserves	(43.7)	(51.2)
	$ 163.5	$ 185.6
Property, plant and equipment, net:		
Land	$ 15.0	$ 14.6
Buildings	357.4	411.3
Machinery and equipment	1,055.0	1,204.8
Total property, plant and equipment	1,427.4	1,630.7
Less: Accumulated depreciation	(842.1)	(944.2)
	$ 585.3	$ 686.5
Goodwill, net:		
Goodwill	$ 95.7	$ 95.7
Less: Accumulated amortization	(18.4)	(18.4)
	$ 77.3	$ 77.3
Intangible asset, net:		
Developed technology	$ 59.3	$ 59.3
Less: Accumulated amortization	(32.6)	(20.7)
	$ 26.7	$ 38.6
Other assets:		
Debt issuance costs	$ 33.7	$ 35.2
Other	5.3	7.2
	$ 39.0	$ 42.4
Accrued expenses:		
Accrued payroll	$ 27.9	$ 28.4
Sales related reserves	14.2	15.0
Restructuring reserves	19.5	19.8
Other	39.0	41.8
	$ 100.6	$ 105.0
Other long-term liabilities:		
Accrued retirement benefits	$ 33.7	$ 25.0
Cash flow hedge liability	8.2	12.2
Other	1.0	11.2
	$ 42.9	$ 48.4
Other comprehensive loss:		
Foreign currency translation adjustments	$ (2.0)	$ (4.3)
Additional minimum pension liability	(19.6)	(13.8)
Net unrealized losses and adjustments related to cash flow hedges	(12.1)	(14.7)
Unrealized losses on deferred compensation plan investments	(0.6)	—

	$ (34.3)	$ (32.8)

Depreciation expense totaled $129.0, $145.5 and 143.2 million for 2002, 2001 and 2000, respectively. Amortization expense related to the developed technology totaled $11.9, $11.6, and $9.1 million in 2002, 2001 and 2000, respectively.

Estimated amortization expense for the intangible asset is as follows:

Year ended December 31,	
2003	$11.9
2004	11.9
2005	2.9
	$26.7

The activity related to our warranty reserves for 2000, 2001 and 2002 follows:

Balance as of December 31, 1999	$ 2.1
Accruals	2.4
Usages	(1.0)
Balance as of December 31, 2000	$ 3.5
Accruals	0.1
Usages	(0.6)
Balance as of December 31, 2001	$ 3.0
Accruals	0.1
Usages	(0.4)
Balance as of December 31, 2002	$ 2.7

Note 8: Investments in Joint Ventures

The Company had a 50% interest in Semiconductor Miniatures Products Malaysia Sdn. Bhd. (“SMP”), a joint venture with Semiconductors International B.V. (“Philips”) which operates a back-end manufacturing facility in Seremban, Malaysia. Pursuant to the terms of the joint venture agreement, the Company sold its interest in SMP to Philips on February 1, 2001, effective December 31, 2000, for $20.4 million resulting in a pre-tax gain of $3.1.

Note 9: Long-Term Debt

Long-term debt consists of the following (dollars in millions):

		December 31, 2002		December 31, 2001	
	Amount of Facility	Interest Rate	Balance	Interest Rate	Balance
Senior Bank Facilities:					
Tranche A	$ 200.0	6.4375%	$ 6.6	8.4375%	$ 17.0
Tranche B	325.0	6.4375%	209.9	8.4375%	312.5
Tranche C	350.0	6.4375%	226.0	8.4375%	336.5
Tranche D	200.0	6.4375%	134.1	8.4375%	197.7
Revolver	150.0	6.4375%	125.0	8.4375%	125.0
			701.6		988.7
12% Senior Secured Notes due 2008, interest payable semi-annually, net of debt discount of $8.6			291.4		
12% Senior Subordinated Notes due 2009, interest payable semi-annually			260.0		260.0
10% Junior Subordinated Note to Motorola due 2011, interest compounded semi-annually, payable at maturity			126.9		115.2
2.25% Note payable to Japanese bank due 2010			23.3		21.9
Loan facility with a Chinese bank (currently 3.5%)			20.0		20.0
Capital lease obligation			—		1.1
			1,423.2		1,406.9
Less: Current maturities			(19.8)		(12.4)
			$1,403.4		$1,394.5

Senior Bank Facilities

Borrowings under the senior bank facilities, which bear interest at rates selected by the Company based on either LIBOR or an alternative base rate, as defined, plus an interest rate spread, amortize within three to five years. As of December 31, 2002, the senior bank facilities contained a $150.0 million revolving line of credit. Borrowings of $125.0 million and letters of credit totaling $17.1 million were outstanding against the line of credit at December 31, 2002 leaving $7.9 million of availability at that date. As discussed below, $62.5 million of borrowings outstanding under the revolving line of credit were converted to a new Tranche R term loan in February 2003 pursuant to amendments to the senior bank facilities made in connection with the issuance of the Company's 12% first-lien senior secured notes due 2010 (the "First-Lien Notes"). Additionally, the Company used $180.9 million of the net cash proceeds from the issuance of the First-Lien Notes to prepay a portion of the senior bank facilities, including $25.0 million of which proceeds were used to repay borrowings then outstanding under the revolving line of credit and permanently reduce the commitments thereunder by such amount. As described in Note 15, the Company hedges a portion of the interest rate risk associated with the senior bank facilities.

At June 29, 2001, the Company was not in compliance with the interest expense coverage and leverage ratio requirements under its senior bank facilities. On August 13, 2001, the Company received a waiver in respect to such non-compliance at June 29, 2001 and in respect of any future non-compliance with such covenants through December 31, 2002. In connection with such waiver, the Company amended its senior bank facilities to, among other things, reduce interest expense coverage and increase leverage ratio requirements through December 31, 2005, add minimum cash and EBITDA level covenants through December 31, 2002, require the Company to obtain $100 million through an equity investment from TPG (See Note 11), increase the required interest rate spreads applicable to outstanding borrowings ("supplemental interest"), and, to revise certain mandatory prepayment provisions contained in the original agreement.

In connection with the issuance of the 12% second-lien senior secured notes due 2008 (the "Second-Lien Notes") described below, the Company amended its senior bank facilities on April 17, 2002 to, among other things, permit the issuance of the Second-Lien Notes, eliminate interest expense coverage and leverage ratio requirements through December 31, 2003 and to reduce the minimum interest expense coverage ratio requirement and increase the maximum leverage ratio requirements for the period from January 1, 2004 through June 30, 2006, extend the minimum cash and EBITDA level covenants through December 31, 2003, permit the redemption of up to 35% of the Second-Lien Notes with net proceeds of any equity offerings on or prior to May 15, 2005, allow certain asset sales and to permit borrowings of up to $100.0 million by or for the benefit of the Company's Leshan joint venture so long as the related proceeds are used to prepay loans under the senior bank facilities. The Company was in compliance with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2002.

In connection with the issuance of the First-Lien Notes described below, the Company amended its senior bank facilities effective as of February 14, 2003 to, among other things, permit the issuance of the First-Lien Notes, eliminate the interest expense and leverage coverage ratio requirements, reduce the minimum EBITDA level covenant (as defined in the credit agreement) to $140.0 million for any four consecutive fiscal quarters until the final maturity of the senior bank facilities, reduce permitted annual capital expenditures to $100.0 million (subject to increases in certain circumstances), permit the redemption of up to 35% of the First-Lien Notes with net proceeds of any equity offerings on or prior to March 15, 2006 and to convert $62.5 million of the amounts outstanding under the revolving credit facility to a new Tranche R term loan. Although there can be no assurances, the Company believes that it will be able to comply with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2003.

Second-Lien Notes

On May 6, 2002, the Company and SCI LLC, (collectively, the "Issuers") issued $300.0 million principal amount of Second-Lien Notes in a private offering that was exempt from the registration requirements of the federal securities laws. The Second-Lien Notes, which are callable after four years, were issued at 96.902% of par value and generated net proceeds of $278.6 million after such discount and the payment of issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company's senior bank facilities. Because the amount outstanding under the senior bank facilities was reduced below $750.0 million, the supplemental interest charges were reduced from 3.0% to 1.0%. The Company has the option to terminate the supplemental interest charges by paying the entire accrued balance of supplemental interest charges on March 31, 2003. Alternatively, the Company can elect to pay 50% of the existing accrued balance at March 31, 2003 and continue accruing supplemental interest charges through June 30, 2003, at which time all remaining supplemental interest is due. Approximately $25.7 million of supplemental interest charges had been accrued as of December 31, 2002. In connection with this prepayment, the Company wrote off $6.5 million of debt issuance costs which is reflected as an extraordinary loss in the Company's consolidated statement of operations for the year ended December 31, 2002. The Second-Lien Notes accrued interest at the rate of 12% until February 6, 2003, when the related annual interest increased to 13%. The increased interest rate will remain in effect unless on or prior to August 6, 2003 the Company issues $100.0 million of its common stock or certain convertible preferred stock to financial sponsors and uses the net proceeds to prepay additional amounts outstanding under its senior bank facilities or under any other credit facility secured by a first-priority lien and permanently reduces the related loan commitments in an amount equal to the amount prepaid. Interest on Second-Lien Notes is payable semi-annually on May 15 and November 15.

The Second-Lien Notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by the Company's domestic restricted subsidiaries that are also guarantors under the 12% Senior Subordinated Notes Due 2009 (the "Senior Subordinated Notes") described below. In addition, the Second-Lien Notes and the related guarantees are secured on a second-priority basis by the capital stock or other equity interests of the Company's domestic subsidiaries, 65% of the capital stock or other equity interests of the Company's first-tier foreign subsidiaries and substantially all other assets, in each case that are held by the Company or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

The Issuers filed an exchange offer registration statement on October 1, 2002 relating to the Second-Lien Notes pursuant to a registration rights agreement. The registration statement was declared effective by the Securities and Exchange Commission on January 27, 2003.

First-Lien Notes

On March 3, 2003, the Issuers issued $200.0 million principal amount of First-Lien Notes in a private offering that was exempt from the registration requirements of the federal securities laws. The First-Lien Notes, which are callable after four years, were issued at 95.467% of par value and generated net proceeds of approximately $180.9 million after taking into consideration the discount and the payment of expected issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company's senior bank facilities, including $25.0 million relating to the Company's revolving credit facility. In connection with the prepayment, the Company wrote off $3.5 million of debt issuance costs in the first quarter of 2003.

The First-Lien Notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by the Company's domestic restricted subsidiaries. In addition, the First-Lien Notes and related guarantees are secured on a first-priority basis by the assets that secure the senior bank facilities and they rank equal in right of payment with all of the Company's and the guarantors' existing and future senior indebtedness and senior to the Company's and the guarantors' existing and future senior subordinated and subordinated indebtedness and effectively junior to all of the liabilities of the Company's subsidiaries that have not guaranteed such notes.

Senior Subordinated Notes

In connection with the Recapitalization described in Note 1, the Company issued $400.0 million principal amount of Senior Subordinated Notes due 2009. Except as described below, the Senior Subordinated Notes may not be redeemed prior to August 1, 2004. Redemption prices range from 106% of the principal amount if redeemed in 2004 to 100% if redeemed in 2008 or thereafter. The Company was able to redeem up to 35% of the aggregate principal amount of the Senior Subordinated Notes prior to August 4, 2002 with the proceeds of a public equity offering at a redemption price of 112% of the amount redeemed. On May 3, 2000, the Company completed its initial public offering (IPO) of its common stock and used a portion of the proceeds to redeem $140.0 million of the Senior Subordinated Notes.

Japanese Loan

In 2000, the Company's Japanese subsidiary entered into a yen-denominated note agreement with a Japanese bank to finance the expansion of its manufacturing facilities. The loan, which has a balance of $23.3 million at December 31, 2002 (based on the yen-to-dollar exchange rate in effect at that date) and bears interest at an annual rate of 2.25%, requires semi-annual principal and interest payments through September 2010 of approximately $1.9 million (based on the yen-to-dollar exchange rate at December 31, 2002.) The note is unsecured, however, the bank has rights under the agreement to obtain collateral in certain circumstances. In addition, the note is guaranteed by SCI, LLC the Company's primary domestic operating subsidiary.

Chinese Loan

The Company's long-term debt includes a $20 million loan facility between Leshan and a Chinese Bank. Aggregate loans under this facility, which was entered into in November 2000, are comprised of $16 million of borrowings denominated in U.S. dollars and $4 million of borrowings denominated in Chinese Renminbi (based on year-end exchange rates). Interest on these loans is payable quarterly and accrues at a variable rate based on published market rates in China for six-year term loans. Scheduled principal payments consist of $10.5 million due in the fourth quarter of 2003 and $9.5 million due in the first quarter of 2004. Under the current agreement the Company has the ability to extend the maturity of this loan for three years under the same terms and conditions.

Debt Issuance Costs

In connection with the Recapitalization, the Company incurred $52.6 million in costs relating to the establishment of its senior bank facilities and the issuance of its Senior Subordinated Notes. During 2002, 2001 and 2000, the Company incurred $12.1 million, $5.1 million and $3.2 million, respectively, relating to amendments under its senior bank facilities and additional borrowings. The Company wrote-off $6.5 million and $11.9 million of debt issuance costs in 2002 and 2000, respectively, in connection with the various prepayments as outlined above. Other assets at December 31, 2002 and 2001 included $33.7 million and $35.2 million, respectively, of unamortized debt issuance costs.

Annual maturities relating to the Company's long-term debt as of December 31, 2002 are as follows (in millions):

	Actual Maturities
2003	$ 19.8
2004	21.3
2005	236.9
2006	280.9
2007	176.8
Thereafter	687.5
Total	$1,423.2

The Company and SCI LLC are co-issuers of the First-Lien Notes (issued in March 2003), the Second-Lien Notes, and the Senior Subordinated Notes (collectively, "the Notes".) The Company's other domestic subsidiaries (collectively, the "Guarantor Subsidiaries") fully and unconditionally guarantee on a joint and several basis, the Issuers' obligations under the Notes. The Guarantor Subsidiaries include Semiconductor Components Industries of Rhode Island, Inc, an operating subsidiary, as well as holding companies whose net assets consist primarily of investments in the Company's Czech subsidiaries, the Leshan joint venture and nominal equity interests in certain of the Company's other foreign subsidiaries. The Company's remaining subsidiaries (collectively, the "Non-Guarantor Subsidiaries") are not guarantors of the Notes.

The Company does not believe that the separate financial statements and other disclosures concerning the Guarantor Subsidiaries provide any additional information that would be material to investors in making an investment decision. Condensed consolidating financial information for the Issuers, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries is as follows (in millions):

	Issuers					
	ON Semiconductor Corporation(3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of December 31, 2002						
Cash and cash equivalents	$ —	$ 121.5	$ —	$ 68.9	$ —	$ 190.4
Receivables, net	—	38.2	—	77.2	—	115.4
Inventories, net	—	25.4	0.5	150.8	(13.2)	163.5
Other current assets	—	7.1	0.1	38.6	—	45.8
Total current assets	—	192.2	0.6	335.5	(13.2)	515.1
Property, plant and equipment, net	—	104.4	33.5	447.4	—	585.3
Goodwill and other intangibles, net	—	8.1	95.9	—	—	104.0
Investments and other assets	(596.3)	68.0	47.2	1.3	518.8	39.0
Total assets	$ (596.3)	$ 372.7	$ 177.2	$ 784.2	$ 505.6	$1,243.4
Accounts payable	$ —	$ 25.3	$ 1.7	$ 47.1	$ —	$ 74.1
Accrued expenses and other current liabilities	—	134.9	1.6	36.6	1.9	175.0
Deferred income on sales to distributors	—	32.3	—	38.5	—	70.8
Total current liabilities	—	192.5	3.3	122.2	1.9	319.9
Long-term debt (1)	551.4	1,372.2	—	31.2	(551.4)	1,403.4
Other long-term liabilities	—	28.3	—	16.8	—	45.1
Intercompany (1)	(595.7)	(621.7)	158.9	465.0	593.5	—
Total liabilities	(44.3)	971.3	162.2	635.2	44.0	1,768.4
Minority interests in consolidated subsidiaries	—	—	—	—	27.0	27.0
Redeemable preferred stock	110.1	—	—	—	—	110.1
Stockholders' equity (deficit)	(662.1)	(598.6)	15.0	149.0	434.6	(662.1)
Liabilities, minority interests and stockholders' equity (deficit)	(596.3)	372.7	177.2	784.2	505.6	1,243.4
As of December 31, 2001						
Cash and cash equivalents	$ —	$ 124.9	$ 0.1	$ 61.0	$ —	$ 186.0
Receivables, net	—	62.4	—	73.2	—	135.6
Inventories, net	—	25.9	3.1	160.7	(4.1)	185.6
Other current assets	—	6.1	0.1	39.7	—	45.9
Total current assets	—	219.3	3.3	334.6	(4.1)	553.1
Property, plant and equipment, net	—	148.3	42.7	499.9	(4.4)	686.5
Deferred income taxes	—	—	—	1.3	—	1.3
Goodwill and other intangibles, net	—	8.0	107.9	—	—	115.9
Investments and other assets	(453.1)	(0.9)	45.4	1.0	450.0	42.4
Total assets	$ (453.1)	$ 374.7	$ 199.3	$ 836.8	$ 441.5	$1,399.2
Accounts payable	$ —	$ 33.4	$ 2.4	$ 74.0	$ —	$ 109.8
Accrued expenses and other current liabilities	—	101.1	0.2	37.5	—	138.8

	Issuers					
	ON Semiconductor Corporation(3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Deferred income on sales to distributors	—	43.3	—	56.1	—	99.4
Total current liabilities	—	177.8	2.6	167.6	—	348.0
Long-term debt(1)	260.0	1,352.6	—	41.9	(260.0)	1,394.5
Other long-term liabilities	—	36.3	—	12.1	—	48.4
Intercompany(1)	(297.3)	(732.2)	156.1	574.1	299.3	—
Total liabilities	(37.3)	834.5	158.7	795.7	39.3	1,790.9
Minority interests in consolidated subsidiaries	—	—	—	—	24.1	24.1
Redeemable preferred stock	101.6	—	—	—	—	101.6
Stockholders' equity (deficit)	(517.4)	(459.8)	40.6	41.1	378.1	(517.4)
Liabilities, minority interests and stockholders' equity (deficit)	$ (453.1)	$ 374.7	$ 199.3	$ 836.8	$ 441.5	$1,399.2
For the year ended December 31, 2002						
Revenues	$ —	$ 534.5	$ 72.0	$ 1,326.4	$ (839.2)	$1,093.7
Cost of sales	—	471.2	55.1	1,099.8	(830.2)	795.9
Gross profit	—	63.3	16.9	226.6	(9.0)	297.8
Research and development	—	22.4	13.6	31.9	—	67.9
Selling and marketing	—	32.1	1.6	27.5	—	61.2
General and administrative	—	60.5	(0.6)	42.2	—	102.1
Amortization of intangible	—	—	11.9	—	—	11.9
Restructuring, asset impairments and other	—	25.7	(1.1)	3.1	—	27.7
Total operating expenses	—	140.7	25.4	104.7	—	270.8
Operating income (loss)	—	(77.4)	(8.5)	121.9	(9.0)	27.0
Interest expense, net	—	(89.6)	(18.9)	(41.0)	—	(149.5)
Loss on debt prepayment and other(2)	—	(46.9)	—	40.4	—	(6.5)
Equity earnings	(141.9)	73.6	1.8	4.2	61.7	(0.6)
Income (loss) before income taxes and minority interests	(141.9)	(140.3)	(25.6)	125.5	52.7	(129.6)
Income tax benefit (provision)	—	(4.6)	—	(4.9)	—	(9.5)
Minority interests	—	—	—	—	(2.8)	(2.8)
Net income (loss)	$ (141.9)	$ (144.9)	$ (25.6)	$ 120.6	$ 49.9	$ (141.9)
For the year ended December 31, 2001						
Revenues	$ —	$ 639.6	$ 97.5	$ 1,459.4	$ (973.3)	$1,223.2
Cost of sales	—	639.9	71.3	1,312.4	(1,027.7)	995.9
Gross profit	—	(0.3)	26.2	147.0	54.4	227.3
Research and development	—	12.9	3.8	64.2	—	80.9
Selling and marketing	—	39.1	4.3	31.4	—	74.8
General and administrative	—	45.8	—	85.1	—	130.9
Amortization of goodwill and other intangibles	—	—	22.6	—	—	22.6

	Issuers					
	ON Semiconductor Corporation(3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Restructuring, asset impairments and other	—	56.4	2.5	91.5	—	150.4
Total operating expenses	—	154.2	33.2	272.2	—	459.6
Operating income (loss)	—	(154.5)	(7.0)	(125.2)	54.4	(232.3)
Interest expense, net	—	(71.5)	(18.9)	(49.2)	—	(139.6)
Gain on sale of investment in joint venture	—	—	3.1	—	—	3.1
Equity earnings	(831.4)	(237.2)	(0.9)	0.2	1,069.3	—
Income (loss) before income taxes and minority interests	(831.4)	(463.2)	(23.7)	(174.2)	1,123.7	(368.8)
Income tax benefit (provision)	—	(325.5)	(14.8)	11.7	(17.2)	(345.8)
Minority interests	—	—	—	—	(0.4)	(0.4)
Cumulative effect of accounting change	—	(44.1)	—	(72.3)	—	(116.4)
Net income (loss)	$ (831.4)	$ (832.8)	$ (38.5)	$ (234.8)	$ 1,106.1	$ (831.4)
For the year ended December 31, 2000						
Revenues	$ —	$2,245.8	$ 122.4	$ 2,575.9	$ (2,860.8)	$2,083.3
Cost of sales	—	1,765.6	92.0	2,317.6	(2,821.0)	1,354.2
Gross profit	—	480.2	30.4	258.3	(39.8)	729.1
Research and development	—	36.8	13.0	19.4	—	69.2
Selling and marketing	—	56.9	6.4	36.8	—	100.1
General and administrative	—	180.7	5.0	47.7	—	233.4
Amortization of goodwill and other intangibles	—	—	16.8	—	—	16.8
Write off of in-process research and development	—	—	26.9	—	—	26.9
Restructuring, asset impairments and other	—	—	—	4.8	—	4.8
Total operating expenses	—	274.4	68.1	108.7	—	451.2
Operating income (loss)	—	205.8	(37.7)	149.6	(39.8)	277.9
Interest expense, net	—	(78.5)	(14.3)	(42.5)	—	(135.3)
Loss on debt prepayment and other(2)	—	(29.2)	—	—	—	(29.2)
Equity earnings	71.1	16.1	6.3	—	(92.4)	1.1
Income (loss) before income taxes and minority interests	71.1	114.2	(45.7)	107.1	(132.2)	114.5
Income tax benefit (provision)	—	(47.2)	20.8	(22.1)	9.5	(39.0)
Minority interests	—	—	—	—	(4.4)	(4.4)
Net income (loss)	$ 71.1	$ 67.0	$ (24.9)	$ 85.0	$ (127.1)	$ 71.1
For the year ended December 31, 2002						
Net cash provided by (used in) operating activities	$ —	$ (187.9)	$ 0.4	$ 238.9	$ (5.0)	$ 46.4
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(6.7)	(0.5)	(33.3)	—	(40.5)
Equity injections from Parent	—	(0.5)	—	—	0.5	—

	Issuers					
	ON Semiconductor Corporation(3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Proceeds from sales of property, plant and equipment	—	2.3	—	2.2	—	4.5
Net cash used in investing activities	—	(4.9)	(0.5)	(31.1)	0.5	(36.0)
Cash flows from financing activities:						
Intercompany loans	—	(233.0)	—	233.0	—	—
Intercompany loan repayments	—	429.4	—	(429.4)	—	—
Proceeds from debt issuance, net of closing costs and discount	—	278.6	—	—	—	278.6
Payments on capital lease obligation	—	(1.1)	—	—	—	(1.1)
Dividends paid to affiliate	—	—	—	(5.0)	5.0	—
Equity injections from Parent	—	—	—	0.5	(0.5)	—
Repayment of long term debt	—	(287.1)	—	—	—	(287.1)
Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan	—	2.6	—	—	—	2.6
Net cash provided by financing activities	—	189.4	—	(200.9)	4.5	(7.0)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	1.0	—	1.0
Net increase (decrease) in cash and cash equivalents	—	(3.4)	(0.1)	7.9	—	4.4
Cash and cash equivalents, beginning of period	—	124.9	0.1	61.0	—	186.0
Cash and cash equivalents, end of period	$ —	$ 121.5	$ —	$ 68.9	$ —	$ 190.4
For the year ended December 31, 2001						
Net cash provided by (used in) operating activities	$ —	$ (38.2)	$ 2.3	$ (80.5)	$ —	$ (116.4)
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(50.4)	(1.1)	(97.5)	—	(149.0)
Investments in and advances to joint ventures	—	(0.5)	—	—	—	(0.5)
Acquisition of minority interests in consolidated subsidiaries	—	—	—	(0.1)	—	(0.1)
Proceeds from sale of investment in joint venture	—	20.4	—	—	—	20.4
Proceeds from sales of property, plant and equipment	—	4.8	—	9.0	—	13.8
Net cash used in investing activities	—	(25.7)	(1.1)	(88.6)	—	(115.4)

	Issuers					
	ON Semiconductor Corporation(3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Cash flows from financing activities:						
Intercompany loans	—	(218.5)	—	218.5	—	—
Intercompany loan repayments	—	145.7	—	(145.7)	—	—
Proceeds from senior credit facilities and other borrowings	—	125.0	—	9.5	—	134.5
Payments on capital lease obligation	—	(1.9)	—	—	—	(1.9)
Proceeds from convertible redeemable preferred stock	—	99.2	—	—	—	99.2
Repayment of debt issuance costs	—	(5.1)	—	—	—	(5.1)
Repayment of long term debt	—	(5.6)	—	—	—	(5.6)
Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan	—	5.1	—	—	—	5.1
Net cash provided by financing activities	—	143.9	—	82.3	—	226.2
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.8	—	0.8
Net increase (decrease) in cash and cash equivalents	—	80.0	1.2	(86.0)	—	(4.8)
Cash and cash equivalents, beginning of period	—	44.9	(1.1)	147.0	—	190.8
Cash and cash equivalents, end of period	$ —	$ 124.9	$ 0.1	$ 61.0	$ —	$ 186.0
For the year ended December 31, 2000						
Net cash provided by (used in) operating activities	$ —	$ 396.1	$ 8.9	$ (92.8)	$ —	$ 312.2
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(49.4)	(10.0)	(194.7)	—	(254.1)
Investment in business, net of cash acquired	—	(253.2)	—	—	—	(253.2)
Investments in and advances to joint ventures	—	(2.5)	—	—	—	(2.5)
Acquisition of minority interests in consolidated subsidiaries	—	—	—	(1.5)	—	(1.5)
Proceeds from sales of property, plant and equipment	—	4.8	—	13.3	—	18.1
Net cash used in investing activities	—	(300.3)	(10.0)	(182.9)	—	(493.2)
Cash flows from financing activities:						
Intercompany loans	—	(310.0)	—	310.0	—	—
Intercompany loan repayments	—	41.5	—	(41.5)	—	—
Proceeds from initial public offering, net of offering expenses	—	514.8	—	—	—	514.8

	Issuers					
	ON Semiconductor Corporation(3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Proceeds from senior credit facilities and other borrowings	—	200.0	—	36.6	—	236.6
Payment of debt issuance costs	—	(3.2)	—	—	—	(3.2)
Repayment of senior credit facilities, including prepayment penalty	—	(131.5)	—	—	—	(131.5)
Repayment of senior subordinated notes, including prepayment penalty	—	(156.8)	—	—	—	(156.8)
Redemption of redeemable preferred stock, including accrued dividends	—	(228.4)	—	—	—	(228.4)
Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan	—	7.8	—	—	—	7.8
Net cash provided by financing activities	—	(65.8)	—	305.1	—	239.3
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(0.1)	—	(0.1)
Net increase (decrease) in cash and cash equivalents	—	30.0	(1.1)	29.3	—	58.2
Cash and cash equivalents, beginning of period	—	14.9	—	117.7	—	132.6
Cash and cash equivalents, end of period	$ —	$ 44.9	$ (1.1)	$ 147.0	$ —	$ 190.8

(1) For purposes of this presentation, the Senior Subordinated Notes and the Second-Lien Notes have been reflected in the condensed balance sheets of both the Company and SCI LLC with the appropriate offset reflected in the eliminations column. Interest expense has been allocated to SCI LLC only.

(2) Includes the effects of an intercompany loan write-off in connection with the closure of the Company's Guadalajara, Mexico facility.

(3) The Company is a holding company and has no operations apart from those of its operating subsidiaries. Additionally, the Company does not maintain a bank account; rather, all of its cash receipts and disbursements are processed on its behalf by SCI LLC, its primary operating subsidiary.

Note 10: Income Taxes

Geographic sources of income (loss) before income taxes, minority interests and cumulative effect of accounting change are as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
United States	$(233.2)	$(190.7)	$ 33.0
Foreign	103.6	(178.1)	81.5
	$(129.6)	$(368.8)	$114.5

The provision for income taxes is as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
Current			
Federal	$ —	$ (16.5)	$ 26.8
State and local	0.1	0.5	3.1
Foreign	3.0	6.7	20.6
	3.1	(9.3)	50.5
Deferred			
Federal	—	315.8	(8.7)
State and local	—	39.6	(1.2)
Foreign	6.4	(0.3)	(1.6)
	6.4	355.1	(11.5)
	$ 9.5	$345.8	$ 39.0

A reconciliation of the U.S. federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2002	2001	2000
U.S. federal statutory rate	(35.0)%	(35.0)%	35.0%
Increase (decrease) resulting from:			
State and local taxes, net of federal tax benefit	(9.0)	(3.4)	2.2
Foreign withholding taxes	1.3	1.5	2.5
Foreign rate differential	(25.5)	10.9	(5.7)
Change in valuation allowance	73.6	119.1	—
Other	1.9	0.6	0.1
	7.3%	93.7%	34.1%

Deferred tax assets are as follows (in millions):

	Year Ended December 31,	
	2002	2001
Tax-deductible goodwill	$ 235.2	$ 255.4
Reserves and accruals	24.3	31.9
Inventories	15.1	29.6
Property, plant and equipment	16.2	28.9
Net operating loss and tax credit carryforwards	237.0	95.3
Other	18.2	20.0
Gross deferred tax assets	$ 546.0	$ 461.1
Valuation allowance	(541.8)	(450.6)
Net deferred tax asset	$ 4.2	$ 10.5

A valuation allowance has been recorded against the Company's deferred tax assets, with the exception of deferred tax assets at certain foreign subsidiaries, as management believes it is more likely than not that these assets will not be realized.

As of December 31, 2002, the Company's federal, state, and foreign net operating loss carryforwards were $541.2 million, $608.0 million, and $17.3 million, respectively. If not utilized, these net operating losses will expire in varying amounts from 2006 through 2023. The Company's ability to utilize its federal net operating loss carryforwards may be limited in the future if the Company experiences an ownership change as defined by the Internal Revenue Code.

Income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries (approximately $87.8 million at December 31, 2002) over which it has sufficient influence to control the distribution of such earnings and has determined that such earnings have been reinvested indefinitely. These earnings could become subject to federal income tax if they are remitted as dividends, if foreign earnings are loaned to any of the Company's domestic subsidiaries, or if the Company sells its investment in such subsidiaries. The Company estimates that repatriation of these foreign earnings would generate additional foreign withholding taxes of $13.1 million.

Note 11: Redeemable Preferred Stock

On September 7, 2001, the Company issued 10,000 shares of its Series A Cumulative Convertible Redeemable Preferred Stock ("the preferred stock") with a stated value of $100 million to an affiliate of TPG. Net proceeds from the sale after deducting issuance costs were approximately $99.2 million. As of the issuance date, the preferred stock was convertible into 35,460,993 shares of the Company's common stock at a price of $2.82 per share (subject to specified anti-dilution provisions) and is redeemable at the holder's option any time after September 7, 2009. The preferred stock has a cumulative dividend payable quarterly in cash, at the rate of 8.0% per annum (or, if greater during the relevant quarterly period, in an amount equal to the value of the dividends that would be paid on the common stock then issuable upon conversion of the preferred stock), compounded to the extent not paid, and subject to restrictions under the Company's senior bank facilities, the 12% Senior Subordinated Notes due in 2009 and other documents relating to the Company's indebtedness.

The per share price of the Company's common stock on the date of issuance was $3.19, which was $0.37 higher than the conversion price of $2.82, resulting in a beneficial conversion feature ("BCF") of approximately $13.1 million. The BCF was originally recorded as a discount against the preferred shares with an offsetting increase to additional paid-in capital. However, since the preferred shares are convertible immediately and have no stated redemption date, the discount was accreted in full on the date of issuance effectively eliminating the originally recorded discount. The net loss applicable to common shareholders in 2001 was increased by the $13.1 million accretion for purposes of calculating earnings per share.

At any time after September 7, 2009, the holders may require that the Company redeem their shares at a redemption price equal to the greater of (i) the stated value of the preferred stock plus all accrued and unpaid dividends thereon or (ii) 50% of the then current market price of the common stock (based upon the average closing price of the common stock over the preceding 30 trading days) and other assets and property, if any, into which one share of preferred stock is then convertible. Upon a change of control, the holders of the preferred stock may "put" their shares to the Company at 101% of the stated value plus accumulated and unpaid dividends. The holders of the preferred stock were also granted registration rights in respect of the common stock underlying the preferred stock.

The holder's right to require the Company to redeem the preferred stock is subject to, and expressly conditioned upon, limitations under the Company's various debt agreements. The holders of the preferred stock will be entitled to vote with the holders of the Company's common stock as a single class. As of the issuance date, each share of preferred stock was entitled to approximately 3,135 votes, subject to certain adjustments for accumulated dividends and those made in accordance with anti-dilution provisions contained in the underlying agreements.

Note 12: Common Stock

On May 3, 2000, the Company completed the initial public offering of its common stock, selling 34.5 million shares with an issue price of $16 per share. Net proceeds from the IPO (after deducting issuance costs) were approximately $514.8 million. The net proceeds were used to redeem all of the preferred stock then outstanding (including accrued dividends), redeem a portion of the 12% Senior Subordinated Notes due in 2009 and prepay a portion of the loans outstanding under the senior bank facilities. In connection with this debt prepayment, the Company incurred prepayment penalties and redemption premiums of $17.3 million and wrote off $11.9 million of debt issuance costs.

Earnings (loss) per share calculations for 2002, 2001 and 2000 are as follows (in millions, except per share data):

	2002	2001	2000
Net income (loss) before cumulative effect of accounting change	$(141.9)	$(715.0)	$ 71.1
Less: Accretion of beneficial conversion feature of redeemable preferred stock	—	(13.1)	—
Less: Redeemable preferred stock dividends	(8.5)	(2.4)	(8.8)
Net income (loss) applicable to common stock before cumulative effect of accounting change	(150.4)	(730.5)	62.3
Cumulative effect of accounting change	—	(116.4)	—
Net income (loss) applicable to common stock	$(150.4)	$(846.9)	$ 62.3
Basic weighted average common shares outstanding	175.6	173.6	160.2
Add: Incremental shares for:			
Dilutive effect of stock options	—	—	5.4
Convertible redeemable preferred stock	—	—	—
Diluted weighted average common shares outstanding	175.6	173.6	165.6
Earnings per share			
Basic:			
Net income (loss) applicable to common stock before cumulative effect of accounting change	$ (0.86)	$ (4.21)	$ 0.39
Cumulative effect of accounting change	—	(0.67)	—
Net income (loss) applicable to common stock	$ (0.86)	$ (4.88)	$ 0.39
Diluted:			
Net income (loss) applicable to common stock cumulative effect of accounting change	$ (0.86)	$ (4.21)	$ 0.38
Cumulative effect of accounting change	—	(0.67)	—
Net income (loss) applicable to common stock	$ (0.86)	$ (4.88)	$ 0.38

Basic earnings (loss) per share is computed by dividing net income (loss) adjusted for dividends accrued on the Company’s redeemable preferred stock and the accretion of the beneficial conversion feature on the redeemable preferred stock by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share generally assumes the conversion of the convertible redeemable preferred stock into common stock and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options. The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. For 2002 and 2001, the effect of stock option shares were not included as the related impact would have been anti-dilutive as the Company generated a net loss in those periods. Had the Company generated net income in 2002 and 2001, the assumed exercise of stock options would have resulted in an additional 3.5 million shares and 5.1 million shares of diluted weighted average common shares outstanding in 2002 and 2001, respectively. This computation excludes an additional 13.3 million and 8.8 million of options outstanding at December 31, 2002 and 2001 as their exercise price exceeds the average fair market value during those years and, accordingly, the related impact would have been anti-dilutive. For 2002 and 2001, the assumed conversion of the redeemable preferred stock was also not included in determining diluted earnings per share as the related impact would have been anti-dilutive. The redeemable preferred stock is convertible into shares of the Company’s common stock at a price of $2.82.

On April 24, 2002, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission to register 40,000,000 shares of common stock. The Company may sell the registered shares in one or more offerings depending on market and general business conditions. Because the Company is not planning on issuing any shares in the near future, the Company has not yet requested that the shelf registration statement be declared effective.

On July 9, 2002, the Company received a notice from Nasdaq advising that it was not in compliance with the Nasdaq National Market's minimum bid price requirement (Marketplace Rule 4450 (b)(4)) because its common stock had traded below $3.00 per share for 30 consecutive trading days and that, if the Company were unable to demonstrate compliance with this requirement by October 7, 2002, Nasdaq would provide it written notification that its securities will be delisted. Because the Company's stock had not closed above $2.82 a share since July 9, 2002, it seemed unlikely that it would have regained compliance with the minimum bid price requirement. Therefore, on October 2, 2002 the Company requested a transfer of the listing of our common stock from the Nasdaq National Market to the Nasdaq SmallCap Market. On October 22, 2002 Nasdaq approved the transfer and effective October 25, 2002, the Company began trading on the Nasdaq SmallCap Market

Note 13: Stock Options

The Company adopted the ON Semiconductor 1999 Founders Stock Option Plan ("the 1999 Plan"), which is an incentive plan for key employees, directors and consultants. A total of 11.6 million shares of the Company's common stock have been reserved for issuance under the 1999 Plan. The 1999 Plan is administered by the Board of Directors or a committee thereof, which is authorized to, among other things, select the key employees, directors and consultants who will receive grants and determine the exercise prices and vesting schedules of the options. Prior to the existence of a public market for the Company's common stock, the Board of Directors determined fair market value.

On February 17, 2000, the Company adopted the 2000 Stock Incentive Plan ("the 2000 Plan") to provide key employees, directors and consultants with various equity-based incentives as described in the plan document. During 2001, stockholders voted to amend the 2000 Plan to increase the number of shares of the Company's common stock issuable thereunder by 3.0 million (for an aggregate of 13.0 million shares at December 31, 2001). The 2000 Plan is administered by the Board of Directors or a committee thereof, which is authorized to determine, among other things, the key employees, directors or consultants who will receive awards under the plan, the amount and type of award, exercise prices or performance criteria, if applicable, and vesting schedules.

Generally, the options granted under both plans vest over a period of four years. Under the 1999 Plan, all outstanding options and under the 2000 Plan certain outstanding options vest automatically upon a change of control, as defined, provided the option holder is employed by the Company on the date of the change in control. Under the 2000 Plan, certain other outstanding options vest upon a change of control if the Board of Directors of the Company, in its discretion, provides for acceleration of the vesting of said options. Upon the termination of an option holder's employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability).

There was an aggregate of 6.3 million, 4.7 million and 6.6 million shares of common stock available for grant under the 1999 Plan and the 2000 Plan at December 31, 2002, 2001 and 2000, respectively.

Additional information with respect to the activity of the Company's stock option plans is as follows (in millions, except per share data):

	2002		2001		2000	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	18.7	$ 5.91	14.4	$ 6.46	10.1	$ 1.50
Grants	9.0	3.12	8.4	5.26	5.5	15.18
Exercises	(0.8)	1.50	(0.6)	1.50	(0.6)	1.67
Cancellations	(4.5)	7.47	(3.5)	7.42	(0.6)	7.71
Outstanding at end of year	22.4	$ 4.63	18.7	$ 5.91	14.4	$ 6.46
Exercisable at end of year	8.8	$ 4.90	4.6	$ 4.65	2.6	$ 3.32
Weighted average fair value of options granted during the period		$ 1.91		$ 3.25		$ 8.04

The following tables summarize options outstanding and options exercisable at December 31, 2002:

	Outstanding Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
$1.25-$1.50	7.3	6.99	$ 1.48
$1.80-$2.71	2.1	9.84	1.95
$3.22-$4.24	6.8	8.96	3.61
$5.50-$9.03	3.7	8.20	6.42
$10.88-$21.38	2.5	7.38	15.95
Totals	22.4		$ 4.63

	Exercisable Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
$1.25-$1.50	5.4	6.73	$ 1.50
$3.22-$4.24	0.8	8.86	4.00
$5.50-$9.03	1.0	8.10	6.64
$10.88-$21.38	1.6	7.37	15.97
Totals	8.8		$ 4.90

These options will expire if not exercised at specific dates through November 2012.

In 2002, the Company recorded charges of $4.1 million related to the modification of option terms for employees terminated under the restructuring plan as well as the separation of an executive officer. These charges are recorded in restructuring and other charges in the consolidated statement of operations with an offsetting credit to additional paid-in capital. In 2002, the Company also recorded $0.4 million of compensation expense related to stock options issued to consultants and other stock option modifications to certain employees.

In 2001, the Company issued warrants to purchase 1,250,000 shares of common stock to consultants for services rendered during 2001. These warrants, which have an exercise price of $1.90 per share, were recorded at their estimated fair value of $1.3 million as a charge to general and administrative expense with an offsetting credit to additional paid-in capital. These warrants vested at the date of grant and expire in October 2005.

During 2000, an employee of the Company was granted 80,000 stock appreciation rights under the 2000 Plan with a reference price of $16.00.

In 2000, the Company granted certain consultants options to purchase approximately 91,000 shares of common stock at exercise prices ranging from $1.50 to $16.00 per share. The aggregate estimated fair value of these options of $1.2 million was recognized as general and administrative expense over the term of the respective consulting agreements, approximately $0.5 million in 2001 and $0.7 million in 2000. These grants expire at various dates through June 2003.

On February 17, 2000, the Company adopted the 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company’s full-time employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of the Company’s common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. Employees will be limited to annual purchases of $25,000 under this plan. In addition, during each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to $6,250 divided by the fair market value of the stock on the first day of the offering period. During 2002, 2001 and 2000, employees purchased approximately 1.0 million, 1.3 million and 1.0 million shares under the plan. During 2001, shareholders voted to amend the 2000 Employee Stock Purchase Plan to increase the number of shares of the Company’s common stock issuable thereunder by 4.0 million (for an aggregate of 5.5 million shares).

Note 14: Employee Benefit Plans

Defined Benefit Plans

In connection with the Recapitalization, the Company established the ON Semiconductor Pension Plan (the “Plan”) that, after one year of service, covered most U.S. employees who were also formerly employees of Motorola. The Plan’s benefit formula was dependent upon each employee’s earnings and years of service. Benefits under the Plan are valued utilizing the projected unit credit cost method. The Company’s policy is to fund its defined benefit plans in accordance with the requirements and regulations of the Internal Revenue Code.

In November 1999, the Plan was amended so that benefit accruals under the Plan will be discontinued effective December 31, 2004 for those employees whose combined age and years of service (in complete years) equaled or exceeded 65 at August 4, 1999 (the “Grandfathered Employees”). Benefit accruals under the plan for all other employees were discontinued effective December 31, 2000. Upon termination or retirement, employees may elect to receive their benefits in the form of either an annuity contract or a lump-sum distribution. In 2000, the ON Semiconductor Grandfathered Pension Plan (the “Grandfathered Plan”) was established and the assets and accumulated benefits related to the Grandfathered Employees were transferred to the Grandfathered Plan.

Effective April 15, 2001, the Company terminated the Plan in a standard termination, which requires plan assets be sufficient to provide all benefits for participants and beneficiaries of deceased participants. Substantially all accrued benefits under the Plan were distributed to participants by December 31, 2001.

Certain of the Company's foreign subsidiaries provide retirement plans for substantially all of their employees. Such plans conform to local practice in terms of providing minimum benefits mandated by law, collective agreements or customary practice. Benefits under all foreign pension plans are also valued using the projected unit credit cost method.

The following is a summary of the status of the Company's various pension plans and the net periodic pension cost (dollars in millions):

	2002			2001		
	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Assumptions used to value the Company's pension obligations are as follows:						
Rate of compensation increase	3.00%	3.17%		3.00%	3.77%	
Discount rate	5.00%	4.40%		7.40%	5.08%	
Benefit obligation, beginning of period	$ 41.5	$ 22.3	$ 63.8	$ 77.4	$ 32.8	$ 110.2
Service cost	1.8	1.3	3.1	2.1	2.2	4.3
Interest cost	3.0	0.8	3.8	2.4	1.6	4.0
Curtailment gain	—	(0.3)	(0.3)	—	(0.2)	(0.2)
Actuarial (gain) loss	5.3	1.2	6.5	18.0	(0.5)	17.5
Benefits paid	(4.8)	(6.7)	(11.5)	(58.4)	(11.7)	(70.1)
Translation (gain) loss	—	0.7	0.7	—	(1.9)	(1.9)
Benefit obligation, end of period	$ 46.8	$ 19.3	$ 66.1	$ 41.5	$ 22.3	$ 63.8
Change in Plan Assets:						
Fair value, beginning of period	$ 10.1	$ 9.1	$ 19.2	$ 60.5	$ 18.1	$ 78.6
Actual return on plan assets	(1.1)	0.3	(0.8)	0.4	(0.6)	(0.2)
Employer contributions	13.0	1.3	14.3	7.6	4.4	12.0
Benefits paid	(4.8)	(6.7)	(11.5)	(58.4)	(11.7)	(70.1)
Translation gain (loss)	—	—	—	—	(1.1)	(1.1)
Fair value, end of period	$ 17.2	$ 4.0	$ 21.2	$ 10.1	$ 9.1	$ 19.2
Balances, end of period:						
Pension benefit obligation	$ (46.8)	$ (19.3)	$ (66.1)	$ (41.5)	$ (22.3)	$ (63.8)
Fair value of plan assets	17.2	4.0	21.2	10.1	9.1	19.2
Funded status	(29.6)	(15.3)	(44.9)	(31.4)	(13.2)	(44.6)
Unrecognized net actuarial loss (gain)	20.0	1.5	21.5	17.3	(0.2)	17.1
Unrecognized prior service cost	0.9	1.9	2.8	1.3	2.2	3.5
Net liability recognized end of period	$ (8.7)	$ (11.9)	$ (20.6)	$ (12.8)	$ (11.2)	$ (24.0)
The net amounts recognized in the consolidated balance sheet consist of the following:						
Accrued expenses	$ (6.4)	$ (2.0)	$ (8.4)	$ (13.0)	$ (1.3)	$ (14.3)
Other long-term liabilities	(22.0)	(11.8)	(33.8)	(14.9)	(9.9)	(24.8)
Intangible asset	0.8	1.2	2.0	1.3	—	1.3
Accumulated other comprehensive income (loss)	18.9	0.7	19.6	13.8	—	13.8
Net liability recognized, end of period	$ (8.7)	$ (11.9)	$ (20.6)	$ (12.8)	$ (11.2)	$ (24.0)

	2002			2001			2000		
	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Assumptions used to determine pension costs are as follows:									
Discount rate	7.40%	5.08%		6.80%	5.76%		6.80%	6.22%	
Expected return on assets	8.50%	3.17%		8.50%	7.46%		8.50%	5.15%	
Rate of compensation increase	3.00%	3.77%		3.00%	3.77%		5.00%	4.75%	
Components of net periodic pension cost:									
Service cost	$ 1.8	$ 1.3	$ 3.1	$ 2.1	$ 2.2	$ 4.3	$ 4.7	$ 2.6	$ 7.3
Interest cost	3.0	0.8	3.8	2.4	1.6	4.0	4.5	2.0	6.5
Expected return on assets	(1.2)	(0.3)	(1.5)	(1.4)	(1.0)	(2.4)	(5.2)	(1.5)	(6.7)
Amortization of prior service cost	0.1	0.3	0.4	0.2	0.4	0.6	0.2	0.6	0.8
Other losses	4.9	—	4.9	0.3	—	0.3	—	—	—
Settlement loss (curtailment gain)	0.4	(0.3)	0.1	9.9	2.3	12.2	—	—	—
Net periodic pension cost	$ 9.0	$ 1.8	$ 10.8	$ 13.5	$ 5.5	$ 19.0	$ 4.2	$ 3.7	$ 7.9

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $63.8 million, $56.8 million, and $19.6 million, respectively as of December 31, 2002 and $60.4 million, $54.6 million and $16.3 million, respectively as of December 31, 2001.

We recognize a minimum liability in our financial statements for our underfunded pension plans. The total accrued pension liability of $42.2 million and $39.1 million at December 31, 2002 and 2001, respectively and includes an additional minimum pension liability of $21.6 and $15.1 million, respectively. The additional minimum liability was offset by a $2.0 million intangible asset and a $19.6 million increase to stockholders' deficit at December 31, 2002 compared with a $1.3 million intangible asset and a $13.8 million increase to stockholders' deficit at December 31, 2001.

In regards to the Grandfathered Plan, the Company reevaluated its current assumptions in light of the actual returns experienced, current annuity rates and the expected discontinuation of benefits as of December 31, 2004 with the subsequent payment of benefits in 2005. The discount rate used to determine the pension obligation at December 31, 2002 and to determine future expense was lowered to 5.0% from 7.4% in the previous year. In addition, the expected return on plan assets used to determine future expense was lowered to 2.5% from 8.5%, reflecting the Company's change in investment policy regarding the assets of the Grandfathered Plan. Upon the termination of the Grandfathered Plan, the Company is obligated to ensure that the plan has assets sufficient to pay accrued benefits.

Effective January 1, 2003, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. The Company will no longer defer actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred.

The impact of this change for periods prior to January 1, 2003 is a charge of $21.5 million, both before and after income taxes, and will be reflected as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations and comprehensive loss for the quarter ended April 4, 2003. Absent the accounting change, the $21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

The estimated pro forma effects of the accounting change are as follows (in millions except share data):

	Year Ended December 31,		
	2002	2001	2000
As reported:			
Net income (loss) before cumulative effect of accounting change	$(141.9)	$(715.0)	$71.1
Net income (loss)	$(141.9)	$(831.4)	$71.1
Basic net income (loss) before cumulative effect of accounting change per share	$ (0.86)	$ (4.21)	$0.39
Basic net income (loss) per share	$ (0.86)	$ (4.88)	$0.39
Diluted net income (loss) before cumulative effect of accounting change per share	$ (0.86)	$ (4.21)	$0.38
Diluted net income (loss) per share	$ (0.86)	$ (4.88)	$0.38
Pro forma amounts reflecting the accounting change applied retroactively:			
Net income (loss) before cumulative effect of accounting change	$(146.3)	$(725.2)	$64.5
Net income (loss)	$(146.3)	$(841.6)	$64.5
Basic net income (loss) before cumulative effect of accounting change per share	$ (0.88)	$ (4.27)	$0.35
Basic net income (loss) per share	$ (0.88)	$ (4.94)	$0.35
Diluted net income (loss) before cumulative effect of accounting change per share	$ (0.88)	$ (4.27)	$0.34
Diluted net income (loss) per share	$ (0.88)	$ (4.94)	$0.34

Defined Contribution Plans

The Company has a deferred compensation plan ("the Savings Plan") for all eligible U.S. employees established under the provisions of Section 401(k) of the Internal Revenue Code. Eligible employees may contribute a percentage of their salary subject to certain limitations. Effective January 1, 2000, the Company began a matching contribution of 100% of the first 4% of employee contributions, and 50% of the next 4% of employee contributions, as defined in the Savings Plan.

The Company recognized $7.1 million of expense relating to matching contributions in 2000. Effective March 1, 2001 the Company amended the Savings Plan to make the matching contribution discretionary. A discretionary matching contribution was offered through April 2001, resulting in $2.2 million of related expense in 2001. Effective January 1, 2002, the Company reinstated a discretionary matching contribution of 100% of the first 3% of employee contributions and, if certain financial goals are achieved, an additional 50% of the next 6% of employee contributions. In 2002 the Company recognized $4.0 million of expense relating to matching contributions in 2002.

Certain foreign subsidiaries have defined contribution plans in which eligible employees participate. The Company recognized compensation expense of $0.4 million, $0.6 million and $1.0 million relating to these plans for the years ended 2002, 2001 and 2000, respectively.

Note 15: Financial Instruments

Foreign Currencies

As a multinational business, the Company's transactions are denominated in a variety of currencies. When appropriate, the Company uses forward foreign currency contracts to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. The Company's policy prohibits trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure.

Under the Company's foreign exchange management program, foreign subsidiaries provide forecasts of their foreign currency exposures. The Company then aggregates the forecasted amounts and enters into foreign currency contracts in order to create an offset to the underlying exposures. Losses or gains on the underlying cash flows or investments offset gains or losses on the financial instruments. The Company primarily hedges existing assets and liabilities and cash flows associated with transactions currently on its balance sheet.

At December 31, 2002 and 2001, the Company had net outstanding foreign exchange contracts with notional amounts of $19.5 million and $33.8 million, respectively. Such contracts were obtained through financial institutions and were scheduled to mature within three months. Management believes that these financial instruments should not subject the Company to increased risks from foreign exchange movements because gains and losses on these contracts, which are included in other current liabilities, should offset losses and gains on the assets, liabilities and transactions being hedged. The following schedule shows the net foreign exchange positions in U.S. dollars as of December 31, 2002 and 2001 (in millions):

	December 31,	
	2002 Buy (Sell)	2001 Buy (Sell)
Japanese Yen	$ (16.3)	$ (31.9)
Czech Koruna	2.7	—
Euro	(11.4)	(8.0)
Philippine Peso	1.8	—
Mexican Peso	0.3	2.4
British Pound	5.0	6.1
Singapore Dollar	1.8	1.5
Swedish Krona	1.5	—
Taiwan Dollar	(4.9)	(3.4)
Other	—	(0.5)
	$ (19.5)	$ (33.8)

The Company is exposed to credit-related losses if counterparties to its foreign exchange contracts fail to perform their obligations. At December 31, 2002, the counterparties on the Company's foreign exchange contracts are two highly rated financial institutions and no credit-related losses are anticipated. Amounts payable or receivable under the contracts are included in other current assets or accrued expenses in the accompanying consolidated balance sheet. For 2002, 2001, and 2000, aggregate foreign currency transaction gains/(losses) total $(0.3) million, $1.2 million and $6.9 million, respectively.

Interest Rate Agreements

At December 31, 2002, the Company had two interest rate swaps of $100.0 million and $55.0 million, which were required by its senior bank facilities. The interest rate swaps are floating-to-fixed rate agreements based on LIBOR with quarterly interest rate resets. The $100.0 million swap has a fixed rate is 5.9% and expires in December 2004 while the $55.0 million swap has a fixed rate of 6.8% and expires in September 2003. The notional amounts are used solely as the basis for which the payment streams are calculated and exchanged. The notional amount is not a measure of the exposure to the Company through the use of the swaps. Amounts to be paid or received under the contracts are recorded in either other current assets or accrued expenses in the accompanying consolidated balance sheet and as an adjustment to interest expense.

Other

At December 31, 2002, the Company had no outstanding commodity derivatives, currency swaps or options relating to either its debt instruments or investments. The Company does not hedge the value of its equity investments in its subsidiaries or affiliated companies.

Note 16: Fair Value of Financial Instruments

The Company uses the following methods to estimate the fair values of its financial instruments:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short-term maturities of such instruments.

Long-term Debt

The fair values of the Company's long-term borrowings are determined by obtaining quoted market prices if available or market prices for comparable debt instruments.

Foreign Currency Exchange Contracts

Forward foreign exchange contracts are valued at current foreign exchange rates for contracts with similar maturities.

Interest Rate Agreements

The fair values of the Company's interest rate swaps represent the amounts at which they could be settled and are estimated by obtaining quotes from brokers.

Series A Cumulative Convertible Redeemable Preferred Stock

The fair value of the Company's cumulative convertible redeemable preferred stock as of December 31, 2002 was estimated as the sum of the present value of the related future cash flows discounted at a rate for a financial instrument with similar characteristics plus the estimated fair value of the conversion option using the Black Scholes option-pricing model. As of December 31, 2001, the fair value was estimated to approximate the carrying value.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2002 and 2001 are as follows (in millions):

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$(1,403.4)	$(1,009.4)	$(1,394.5)	$(1,152.3)
Foreign currency exchange contracts	(0.3)	(0.3)	0.9	0.9
Interest rate agreements	(10.5)	(10.5)	(12.2)	(12.2)
Series A preferred stock	110.1	93.1	101.6	101.6

Note 17: Commitments and Contingencies

Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of December 31, 2002 (in millions):

Year Ending December 31,	
2003	$ 9.4
2004	4.3
2005	2.5
2006	1.1
2007	0.3
Thereafter	—
Total	$17.6

The Company's existing leases do not contain significant restrictive provisions; however, certain leases contain renewal options and provisions for payment by the Company of real estate taxes, insurance and maintenance costs. Total rent expense for 2002, 2001, and 2000 was $12.3 million, $11.0 million, and $13.0 million, respectively.

At December 31, 2002, two letters of credit totaling $7.5 million partially secure an operating lease and a service agreement with an information technology vendor. A downgrade in the Company's debt rating could trigger acceleration of remaining amounts due under these agreements, a portion of which would be satisfied by the letters of credit. The lease expires 2003 while the service agreement expires in 2006. These letters of credit are renewable on a yearly basis until 2005 when they expire.

Other Contingencies

The Company's manufacturing facility in Phoenix, Arizona is located on property that is a "Superfund" site, a property listed on the National Priorities List and subject to clean-up activities under the Comprehensive Environmental Response, Compensation, and Liability Act. Motorola is actively involved in the cleanup of on-site solvent contaminated soil and groundwater and off-site contaminated groundwater pursuant to consent decrees with the State of Arizona. As part of the August 4, 1999 recapitalization, Motorola has retained responsibility for this contamination, and has agreed to indemnify the Company with respect to remediation costs and other costs or liabilities related to this matter.

Legal Matters

The Company is involved in a variety of legal matters that arise in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters, including the matters described in the next paragraphs, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

During the period July 5, 2001 through July 27, 2001, the Company was named as a defendant in three shareholder class action lawsuits that were filed in federal court in New York City against the Company and certain of its former officers, current and former directors and the underwriters for its initial public offering. The lawsuits allege violations of the federal securities laws and have been docketed in the U.S. District Court for the Southern District of New York as: *Abrams v. ON Semiconductor Corp., et al.*, C.A. No. 01-CV-6114; *Breuer v. ON Semiconductor Corp., et al.*, C.A. No. 01-CV-6287; and *Cohen v. ON Semiconductor Corp., et al.*, C.A. No. 01-CV-6942. On April 19, 2002, the plaintiffs filed a single consolidated amended complaint that supersedes the individual complaints originally filed. The amended complaint alleges, among other things, that the underwriters of the Company's initial public offering improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of the Company's common stock in the aftermarket as conditions of receiving shares in its initial public offering. The amended complaint further alleges that these supposed practices of the underwriters should have been disclosed in the Company's initial public offering prospectus and registration statement. The amended complaint alleges violations of both the registration and antifraud provisions of the federal securities laws and seeks unspecified damages. We understand that various other plaintiffs have filed substantially similar class action cases against approximately 300 other publicly traded companies and their public offering underwriters in New York City, which along with the cases against the Company have all been transferred to a single federal district judge for purposes of coordinated case management. The Company believes that the claims against it are without merit and have defended, and intend to continue to defend, the litigation vigorously. The litigation process is inherently uncertain, however, and the Company cannot guarantee that the outcome of these claims will be favorable.

On July 15, 2002, together with the other issuer defendants, the Company filed a collective motion to dismiss the consolidated, amended complaints against the issuers on various legal grounds common to all or most of the issuer defendants. The underwriters also filed separate motions to dismiss the claims against them. In addition, the parties have stipulated to the voluntary dismissal without prejudice of our individual current and former officers and directors who were named as defendants in our litigation, and they are no longer parties to the lawsuit. On February 19, 2003, the Court issued its ruling on the motions to dismiss filed by the underwriter and issuer defendants. In that ruling the Court granted in part and denied in part those motions. As to the claims brought against the Company under the antifraud provisions of the securities laws, the Court dismissed all of these claims with prejudice, and refused to allow plaintiffs the opportunity to re-plead these claims. As to the claims brought under the registration provisions of the securities laws, which do not require that intent to defraud be pleaded, the Court denied the motion to dismiss these claims as to the Company and as to substantially all of the other issuer defendants as well. The Court also denied the underwriter defendants' motion to dismiss in all respects.

In June 2003, upon the determination of a special independent committee of our Board of Directors, the Company elected to participate in a proposed settlement with the plaintiffs in this litigation. If ultimately approved by the Court, this proposed settlement would result in a dismissal, with prejudice, of all claims in the litigation against the Company and against any of the other issuer defendants who elect to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation against those defendants is continuing. The proposed settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of $1 billion by the participating issuer defendants. If recoveries totaling less than $1 billion are obtained by the class members from the underwriter defendants, the class members will be entitled to recover the difference between $1 billion and the aggregate amount of those recoveries from the participating issuer defendants. If recoveries totaling $1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, the Company and any other participating issuer defendants will be required to assign to the class members certain claims that they may have against the underwriters of our initial public offerings.

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. The Company expects that its insurance proceeds will be sufficient for these purposes and that the Company will not otherwise be required to contribute to the proposed settlement. Consummation of the proposed settlement is conditioned upon, among other things, negotiating, executing, and filing with the Court final settlement documents, and final approval by the Court. If the proposed settlement described above is not consummated, however, the Company intends to continue to defend the litigation vigorously. While the Company can make no promises or guarantees as to the outcome of these proceedings, the Company believes that the final result of these actions will have no material effect on its consolidated financial condition, results of operations or cash flows.

Note 18: Related Party Transactions

The Company agreed to pay TPG an annual management fee of up to $2.0 million. In connection with the Cherry acquisition described in Note 6, the Company paid TPG a $2.0 million advisory fee in-lieu of the annual management fee for 2000. Under the Company's amended debt agreements, the payment of the annual management fees to TPG in cash has been deferred until certain conditions are met and no such payments occurred in 2001 or 2002. Management fees may be paid to TPG with the Company's common stock or warrants.

In connection with the Recapitalization, Motorola assigned, licensed or sublicensed intellectual property to the Company relating to certain of the Company's products. Motorola also agreed to continue providing manufacturing and assembly services, to continue using similar services the Company provides to them and to lease real estate to the Company. The manufacturing and assembly services that the Company and Motorola have agreed to continue to provide to each other are at prices intended to approximate each party's cost of providing the services and are fixed throughout the term of the agreements. Subject to the Company's right to cancel upon six months' written notice, the Company has minimum commitments to purchase manufacturing services from Motorola of approximately $1.0 million 2003.

	Year ended December 31,		
	2002	2001	2000
Cash paid for:			
Purchases of manufacturing services from Motorola	$14.3	$87.4	$166.7
Cost of other services, rent and equipment purchased from Motorola	$ 1.5	$17.7	$ 96.0
Cash received for:			
Freight sharing agreement with Motorola	$21.4	$21.9	$ 23.8
Rental of property and equipment to Motorola	$ 9.1	$11.2	$ 11.9
Product sales to Motorola	$99.5	$94.3	$222.1

Related party activity between the Company and Motorola is as follows (in millions):

On April 8, 2002, the Company and Motorola, Inc. reached agreement regarding certain post-closing payments to be made under agreements entered into in connection with the August 1999 Recapitalization. Pursuant to the agreement, Motorola paid the Company $10.6 million during the second quarter of 2002. As a result, the Company recognized a related gain of $12.4 million, which is included in restructuring and other charges in the consolidated statement of operations and comprehensive loss for the year ended December 31, 2002.

As part of the recapitalization, Motorola agreed to provide the Company with worldwide freight services through August 4, 2002. This agreement resulted in better prices than the Company could obtain from third parties. The cost increases resulting from the expiration of this agreement, which totaled approximately $11 million in 2002 as compared to 2001, have been factored into our current operating plans.

Note 19: Supplemental Disclosure of Cash Flow Information

The Company's non-cash financing activities and cash payments for interest and income taxes are as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
Non-cash financing activities:			
Equipment acquired through capital leases	$ —	$ 3.0	$ —
Cash (received) paid for:			
Interest	99.7	119.3	131.2
Income taxes	1.8	(1.3)	55.5

Note 20: Segment Information

The Company is engaged in the design, development, manufacture and marketing of a wide variety of semiconductor components and operates in one segment. The Company operates in various geographic locations. Sales to unaffiliated customers have little correlation with the location of manufacture. It is, therefore, not meaningful to present operating profit by geographic location. The Company conducts a substantial portion of its operations outside of the United States and is subject to risks associated with non-U.S. operations, such as political risks, currency controls and fluctuations, tariffs, import controls and air transportation.

Total revenues by geographic location and product line, including local sales and exports made by operations within each area, are summarized as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
United States	$ 393.1	$ 430.6	$ 856.0
The Other Americas	8.2	55.1	109.1
Asia/Pacific	425.7	385.4	560.9
Europe	201.7	264.0	414.8
Japan	65.0	88.1	142.5
	$ 1,093.7	$ 1,223.2	$ 2,083.3

	Year Ended December 31,		
	2002	2001	2000
Power Management and Standard Analog	$ 362.7	$ 365.4	$ 533.5
MOS Power Devices	138.7	146.7	221.3
High Frequency Clock and Data Management	72.0	118.5	312.4
Standard Components	520.3	592.6	1,016.1
	$ 1,093.7	$ 1,223.2	$ 2,083.3

Property, plant and equipment by geographic location is summarized as follows (in millions):

	December 31,	
	2002	2001
The Americas*	$ 148.4	$ 202.4
Asia/Pacific	266.9	302.3
Europe	97.4	103.3
Japan	72.6	78.5
	$ 585.3	$ 686.5

* The decrease from 2000 to 2001 relates primarily to the decision to phase-out manufacturing operations at the Company's Guadalajara, Mexico facility and the related asset impairment charges recorded in 2001.

Sales to Motorola and two other customers accounted for approximately 8%, 10% and 10%, respectively of the Company's total revenue during 2002 compared to approximately 7%, 8% and 8%, respectively during 2001, and approximately 10%, 11% and 12%, respectively during 2000.

Note 21: Selected Quarterly Financial Data (unaudited):

Consolidated quarterly financial information for 2002 and 2001 follows (in millions, except per share data):

	Quarter Ended 2002			
	Mar. 29	June 28(1)	Sept. 27	Dec. 31(2)
Total revenues	$ 271.0	$ 280.6	$ 273.6	$ 268.5
Gross profit	61.9	82.1	79.0	74.8
Net loss	(50.0)	(31.8)	(20.5)	(39.6)
Diluted net loss per common share	$ (0.30)	$ (0.19)	$ (0.13)	$ (0.24)

	Quarter Ended 2001			
	Mar. 30(3)	June 29(4)	Sept. 28(5)	Dec. 31(6)
Total revenues	$ 363.1	$ 312.6	$ 278.8	$ 268.7
Gross profit	89.5	59.1	39.3	39.4
Net loss before cumulative effect of accounting change	(43.0)	(152.2)	(68.9)	(450.9)
Net loss	(159.4)	(152.2)	(68.9)	(450.9)
Diluted net loss before cumulative effect of accounting change per common share	$ (0.25)	$ (0.88)	$ (0.47)	$ (2.60)
Diluted net loss per common share	$ (0.92)	$ (0.88)	$ (0.47)	$ (2.60)

(1) In June 2002, the Company recorded charges totaling $16.7 million for costs associated with its worldwide restructuring programs. The charges included $3.9 million to cover employee separation costs associated with the termination of 79 U.S. employees, $2.8 million for exit costs consisting primarily of manufacturing equipment and supply contract termination charges, and $8.4 million for equipment write-offs that were charged directly against the related assets. An additional $1.0 million in exits costs and $0.6 million in employee separation costs were accrued relating to the closure of the Company's Guadalajara, Mexico manufacturing facility that was part of the June 2001 restructuring program described below. Also during the second quarter of 2002, the Company reached a settlement of various contractual issues with Motorola in exchange for a cash payment from Motorola of $10.6 million and recorded a related gain of $12.4 million.

(2) In December 2002, the Company recorded $12.6 million (net of a $0.6 adjustment) of restructuring, asset impairments and other charges. The charges included $10.1 million to cover employee separation costs relating the termination of approximately 300 employees, $1.0 million of asset impairments and approximately $1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets. The Company also recorded a $4.9 million charge to cover the costs associated with the separation of two of the Company's executive officers including $2.9 million of non-cash stock compensation relating to the modification of the vesting and exercise period for a portion of the executives' stock options.

(3) Effective January 1, 2001, the Company changed its accounting method for recognizing revenue on sales to distributors. Recognition of revenue and related gross profit on sales to distributors is now deferred until the distributor resells the product. The cumulative effect of the accounting change for periods prior to January 1, 2001 was a charge of $155.2 million ($116.4 million or $0.67 per share, net of income taxes) and was recorded during the quarter ended March 30, 2001.

In March 2001, the Company recorded a $34.2 million charge to cover costs associated with a worldwide restructuring program covering both manufacturing locations and selling, general and administrative functions. The Company also recorded a $3.8 million charge to cover costs associated with the separation of an executive officer. The Company recognized a pre-tax gain of $3.1 million on the sale of its 50% interest in SMP to Philips in February 2001.

(4) In June 2001, the Company recorded a $95.8 million charge to cover costs associated with a worldwide restructuring program. This program includes phasing out of manufacturing operations at the Company's Guadalajara, Mexico facility, transferring certain manufacturing activities performed at the Company's Aizu, Japan and Seremban, Malaysia facilities to other Company-owned facilities or to third party contractors and consolidation of other operations.

(5) At June 29, 2001, the Company was not in compliance with certain of its senior credit facilities. On August 13, 2001, the Company's lenders agreed to waive such non-compliance and to amend the related agreement to temporarily eliminate certain covenants, reduce certain covenants, add new covenants, increase interest rates applicable to outstanding borrowings and require the Company to obtain a $100 million investment from TPG. On September 7, 2001, the Company issued 10,000 shares of its Series A Cumulative Convertible Redeemable Preferred Stock to an affiliated of TPG resulting in proceeds of $99.2 million. As the preferred stock is convertible into shares of common stock at a price lower than the market price on the date of issuance there was a beneficial conversion feature ("BCF") of $13.1 million inherent in the preferred stock. The BCF was originally recorded as a discount against the preferred shares with an offsetting increase to additional paid-in capital. However, since the preferred shares are convertible immediately and have no stated redemption date, the discount was accreted in full on the day of issuance. The net loss applicable to common shareholders increased by the $13.1 million accretion for purposes of calculating earnings per share.

(6) During the fourth quarter of 2001, the Company recorded a $366.8 million income tax charge to establish a valuation allowance for the portion of its deferred taxes for which it is more likely than not that the related benefits will not be recognized. Additionally, the Company recorded a $16.6 million charge to cover costs associated with a worldwide restructuring program. The charge included $5.6 million to cover employee separation costs with the termination of approximately 50 employees and $11.0 million for asset impairments charged directly against the related assets.

Note 22: Subsequent Events

Recent Accounting Pronouncements

The Company adopted SFAS No. 145 "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" effective January 1, 2003, which required the reclassification within the consolidated statement of operations of losses on debt prepayments previously classified as extraordinary items which totaled $6.5 million and $29.2 million in 2002 and 2000, respectively.

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, (FIN No. 46). FIN No. 46 requires that certain variable interest entities ("VIEs") be consolidated by the primary beneficiary, as that term is defined in FIN No. 46. The Company determined that its investment in Leshan-Phoenix Semiconductor Company Limited ("Leshan") meets the definition of a VIE as its economic interest in Leshan is proportionately greater than its ownership interest and, therefore, the investment in Leshan should be consolidated under FIN No. 46. The Company had previously accounted for its investment in Leshan using the equity method as it does not have effective control over Leshan. While consolidation of the Company's investment in Leshan did not impact the Company's previously reported net income (loss) or stockholders' equity (deficit), financial information of prior periods has been revised for comparative purposes as allowed by FIN No. 46.

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
ON Semiconductor Corporation:

Our audits of the consolidated financial statements referred to in our report dated February 5, 2003, except for Note 9 for which the date is March 3, 2003 and Note 22 for which the date is September 2, 2003, appearing in this Current Report on Form 8-K of ON Semiconductor Corporation also included an audit of the financial statement schedule included in this Current Report on Form 8-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth herein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

February 5, 2003
Phoenix, Arizona

ON SEMICONDUCTOR CORPORATION

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions/ Writeoffs	Balance at End of Period
			(In millions)		
Allowance for doubtful accounts					
Year ended December 31, 2000	$ 2.0	$ 0.8	$ 1.4(1)	$ 1.1	$ 3.1
Year ended December 31, 2001	$ 3.1	$ 0.5	$ —	$ 1.3	$ 2.3
Year ended December 31, 2002	$ 2.3	$ —	$ —	$ 0.4	$ 1.9
Inventory reserves					
Year ended December 31, 2000	$ 28.2	$ 44.1	$ —	$ 49.4	$ 22.9
Year ended December 31, 2001	$ 22.9	$ 50.9	$ —	$ 22.5	$ 51.3
Year ended December 31, 2002	$ 51.3	$ 16.0	$ —	$ 23.6	$ 43.7
Allowance for deferred tax assets					
Year ended December 31, 2000	$ —	$ —	$ —	$ —	$ —
Year ended December 31, 2001	$ —	$ 366.8	$ 83.8(2)	$ —	$ 450.6
Year ended December 31, 2002	$ 450.6	$ 1.0	$ 90.2(3)	$ —	$ 541.8

(1) Represents allowance recorded in connection with the acquisition of Cherry Semiconductor.
(2) Represents the valuation allowance related to the 2001 portion of the net operating loss that was not recognized during the year.
(3) Represents the valuation allowance related to the 2002 net operating loss that was not recognized during the year.

EXHIBIT 99.3

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in millions, except share data)

	April 4, 2003	December 31, 2002
Assets		
Cash and cash equivalents	$ 190.0	$ 190.4
Receivables, net (including $10.8 and $4.7 due from Motorola)	129.7	115.4
Inventories, net	170.5	163.5
Other current assets	30.4	39.4
Deferred income taxes	7.6	6.4
Total current assets	528.2	515.1
Property, plant and equipment, net	558.4	585.3
Goodwill	77.3	77.3
Intangible asset, net	23.7	26.7
Other assets	41.4	39.0
Total assets	$ 1,229.0	$ 1,243.4
Liabilities, Minority Interests, Redeemable Preferred Stock and Stockholders' Equity (Deficit)		
Accounts payable (including $0.1 and $0.1 payable to Motorola)	$ 107.7	$ 74.1
Accrued expenses (including $1.3 and $0.7 payable to Motorola)	85.2	100.6
Income taxes payable	14.8	11.0
Accrued interest	22.8	43.6
Deferred income on sales to distributors	68.2	70.8
Current portion of long-term debt	24.0	19.8
Total current liabilities	322.7	319.9
Long-term debt (including $130.2 and $126.9 payable to Motorola)	1,413.4	1,403.4
Other long-term liabilities	44.5	42.9
Deferred income taxes	0.9	2.2
Total liabilities	1,781.5	1,768.4
Commitments and contingencies (See Note 8)	—	—
Minority interests in consolidated subsidiaries	28.0	27.0
Series A cumulative, convertible, redeemable preferred stock ($0.01 par value 100,000 shares authorized, 10,000 shares issued and outstanding; 8% annual dividend rate; liquidation value—$100.0 plus $13.1 and $10.9 of accrued dividends)	112.3	110.1
Common stock ($0.01 par value, 500,000,000 shares authorized, 176,663,090 and 176,439,900 shares issued and outstanding)	1.8	1.8
Additional paid-in capital	735.5	737.4
Accumulated other comprehensive income (loss)	(12.6)	(34.3)
Accumulated deficit	(1,417.5)	(1,367.0)
Total stockholders' equity (deficit)	(692.8)	(662.1)
Total liabilities, minority interests, redeemable preferred stock and stockholders' equity (deficit)	$ 1,229.0	$ 1,243.4

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in millions, except per share data)

	Quarter Ended	
	April 4, 2003	March 29, 2002
Revenues (including $21.5 and $18.2 from Motorola)	$ 269.5	$ 271.0
Cost of sales	195.1	209.1
Gross profit	74.4	61.9
Operating expenses:		
Research and development	17.7	17.3
Selling and marketing	16.1	14.6
General and administrative	21.3	29.2
Amortization of intangible	3.0	3.0
Restructuring, asset impairments and other	—	7.1
Total operating expenses	58.1	71.2
Operating income (loss)	16.3	(9.3)
Other income (expenses), net:		
Interest expense	(38.4)	(36.0)
Loss on debt prepayment	(3.5)	—
Other income (expenses), net	(41.9)	(36.0)
Loss before income taxes and minority interests and cumulative affect of accounting change	(25.6)	(45.3)
Income tax provision	(2.2)	(4.1)
Minority interests	(1.2)	(0.6)
Loss before cumulative effect of accounting change	(29.0)	(50.0)
Cumulative effect of accounting change	(21.5)	—
Net loss	(50.5)	(50.0)
Less: Redeemable preferred stock dividends	(2.2)	(2.1)
Net loss applicable to common stock	$ (52.7)	$ (52.1)
Comprehensive loss:		
Net loss	$ (50.5)	$ (50.0)
Foreign currency translation adjustments	0.7	(0.8)
Additional minimum pension liability adjustment	19.6	—
Effects of cash flows hedges	1.4	3.2
Comprehensive loss	$ (28.8)	$ (47.6)
Earnings (loss) per common share:		
Basic:		
Net loss available for common stock	$ (0.30)	$ (0.30)
Diluted:		
Net loss available for common stock	$ (0.30)	$ (0.30)
Weighted average common shares outstanding:		
Basic	176.4	174.8
Diluted	176.4	174.8

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Quarter Ended	
	April 4, 2003	March 29, 2002
Cash flows from operating activities:		
Net loss	$ (50.5)	$ (50.0)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	36.0	37.4
Loss on debt prepayment	3.5	—
Amortization of debt issuance costs and debt discount	2.2	1.6
Provision for excess inventories	4.0	10.7
Cumulative effect of accounting change	21.5	—
Non-cash interest on junior subordinated note payable to Motorola	3.3	2.7
Deferred income taxes	(2.5)	0.7
Stock compensation expense	0.1	0.3
Other	1.9	0.6
Changes in assets and liabilities:		
Receivables	(12.0)	(8.1)
Inventories	(11.0)	2.1
Other assets	7.6	(1.1)
Accounts payable	33.6	(0.4)
Accrued expenses	(15.3)	2.8
Income taxes payable	3.8	1.8
Accrued interest	(20.8)	(0.9)
Deferred income on sales to distributors	(2.6)	(21.3)
Other long-term liabilities	1.8	2.3
Net cash provided by (used in) operating activities	4.6	(18.8)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6.2)	(12.8)
Proceeds from sales of property, plant and equipment	—	0.2
Net cash used in investing activities	(6.2)	(12.6)
Cash flows from financing activities:		
Proceeds from debt issuance, net of discount	190.9	—
Proceeds from issuance of common stock under the employee stock purchase plan	0.2	0.4
Proceeds from stock option exercises	—	0.8
Payment of debt issuance costs	(9.3)	—
Payment of capital lease obligation	—	(0.7)
Repayment of long-term debt	(180.9)	(2.8)
Net cash provided by (used in) financing activities	0.9	(2.3)
Effect of exchange rate changes on cash and cash equivalents	0.3	(0.1)
Net increase (decrease) in cash and cash equivalents	(0.4)	(33.8)
Cash and cash equivalents, beginning of period	190.4	186.0
Cash and cash equivalents, end of period	$ 190.0	$ 152.2

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1: Background and Basis of Presentation

The accompanying consolidated financial statements include the accounts of ON Semiconductor Corporation, its wholly-owned and majority-owned subsidiaries (collectively, the "Company"). Investments in companies that represent less than 20% of the related voting stock and for which the Company does not exert significant influence on are accounted for on the cost basis. All material intercompany accounts and transactions have been eliminated.

The Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, (FIN No. 46) during the second quarter of 2003. FIN No. 46 requires that certain variable interest entities ("VIE's") be consolidated by the primary beneficiary, as that term is defined in FIN No. 46. The Company determined that its investment in Leshan-Phoenix Semiconductor Company Limited ("Leshan") meets the definition of a VIE as its economic interest in Leshan is proportionately greater than its ownership interest and, therefore, the investment in Leshan should be consolidated under FIN No. 46. The Company had previously accounted for its investment in Leshan using the equity method. While consolidation of the Company's investment in Leshan did not impact the Company's previously reported net income (loss) or stockholders' equity (deficit), financial information of prior periods has been revised for comparative purposes as allowed by FIN No. 46.

The accompanying unaudited financial statements as of April 4, 2003 and for the three months ended April 4, 2003 and March 29, 2002, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information and on the same basis of presentation as the audited financial statements included in the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on September 9, 2003 (the "Company's 8-K"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of December 31, 2002 and for the year then ended included in the Company's 8-K.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates. Certain prior period amounts have been reclassified to conform to the current period presentation. These changes had no impact on previously reported results of operations or stockholders' equity (deficit).

Note 2: Liquidity

During the quarter ended April 4, 2003, the Company incurred a net loss of $50.5 million compared to a net loss of $50.0 million in the first quarter of 2002. The Company's net results included expense from restructuring and other of $7.1 million in the first quarter of 2002, as well as interest expense of $38.4 million and $36.0 million, in the first quarter of 2003 and the first quarter of 2002, respectively. The Company's operating activities provided cash of $4.6 million in the first quarter of 2003 and used cash of $18.8 million in the first quarter of 2002.

At April 4, 2003, the Company had $190.0 million in cash and cash equivalents, net working capital of $205.5 million, term or revolving debt of $1,437.4 million and a stockholders' deficit of $692.8 million. The Company's long-term debt includes $520.7 million under its senior bank facilities; $291.7 million (net of discount) of its 12% second lien senior secured notes due 2008; $191.0 million (net of discount) of its 12% first lien senior secured notes due 2010; $260.0 million of its 12% senior subordinated notes due 2009; $130.2 million under a 10% junior subordinated note payable to Motorola due 2011; and, $23.8 million under a note payable to a Japanese bank due 2010; and $20.0 million under a loan facility with a Chinese bank. The Company was in compliance with all of the covenants contained in its various debt agreements as of April 4, 2003 and expects to remain in compliance over the next twelve months.

As described in Note 7 "Long-Term Debt," ON Semiconductor Corporation and its principal domestic operating subsidiary, Semiconductor Components Industries, LLC (collectively, the "Issuers"), issued $200.0 million principal amount of first lien notes (the "First-Lien Notes") on March 3, 2003 in a private offering that was exempt from the registration requirements of the federal securities laws. The First-Lien Notes, which are callable after four years, were issued at 95.467% of par value and generated net proceeds of approximately $180.9 million after deducting the discount and related issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company's senior bank facilities, including $25.0 million relating to the Company's revolving credit facility. In connection with the prepayment, the Company wrote off $3.5 million of debt issuance costs in the first quarter of 2003 which are included in other income (expenses), net in the accompanying consolidated statement of operations and comprehensive loss.

The Company's ability to service its long-term debt, to remain in compliance with the various covenants and restrictions contained in its credit agreements and to fund working capital, capital expenditures and business development efforts will depend on its ability to generate cash from operating activities which is subject to, among other things, its future operating performance as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may be beyond its control.

If the Company fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to the Company. Although there can be no assurance, management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund the Company's operating and capital needs as well as to enable it to maintain compliance with its various debt agreements through April 3, 2004. To the extent that results or events differ from the Company's financial projections or business plans, its liquidity may be adversely impacted.

Note 3: Accounting Change

During the second quarter of 2003, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, the Company will no longer defer actuarial gains or losses but will recognize such gains or losses during the fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred.

The impact of this change for periods prior to January 1, 2003 is a charge of $21.5 million or $0.12 per share, both before and after income taxes, and has been reflected as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations and comprehensive loss for the quarter ended April 4, 2003. The effect of the change on the quarter ended April 4, 2003 was to decrease the loss before cumulative effect of accounting change by $1.6 million or $0.01 per share, both before and after income taxes, and to increase the net loss by $19.9 million or $0.11 per share, both before and after income taxes. Absent the accounting change, the $21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

The effect of the accounting change on the quarter ended March 29, 2002 (in millions, except per share data):

	Quarter Ended March 29, 2002 (Pro forma)
Reported loss before cumulative effect of accounting change	$ (50.0)
Add back: Amortization of actuarial losses	1.2
Loss before cumulative effect of accounting change	(48.8)
Cumulative effect of accounting change	—
Net loss	$ (48.8)
Loss per share:	
Basic	
Reported loss before cumulative effect of accounting change	$ (0.30)
Add back: Amortization of actuarial losses	0.01
Loss before cumulative effect of accounting change	(0.29)
Cumulative effect of accounting change	—
Net loss per share	$ (0.29)
Diluted	
Reported loss before cumulative effect of accounting change	$ (0.30)
Add back: Amortization of actuarial losses	0.01
Loss before cumulative effect of accounting change	(0.29)
Cumulative effect of accounting change	—
Net loss per share	$ (0.29)

Note 4: Balance Sheet Information

Balance sheet information is as follows (in millions):

	April 4, 2003	December 31, 2002
Receivables, net:		
Accounts receivable	$ 131.6	$ 117.3
Less: Allowance for doubtful accounts	(1.9)	(1.9)
	$ 129.7	$ 115.4
Inventories, net:		
Raw materials	$ 18.8	$ 15.5
Work in process	113.9	109.8
Finished goods	76.7	81.9
Total inventory	209.4	207.2
Less: Inventory reserves	(38.9)	(43.7)
	$ 170.5	$ 163.5
Property, plant and equipment, net:		
Land	$ 15.4	$ 15.0
Buildings	364.5	357.4
Machinery and equipment	1,052.3	1,055.0
Total property, plant and equipment	1,432.2	1,427.4
Less: Accumulated depreciation	(873.8)	(842.1)
	$ 558.4	$ 585.3
Goodwill, net:		
Goodwill	$ 95.7	$ 95.7
Less: Accumulated amortization	(18.4)	(18.4)
	$ 77.3	$ 77.3
Intangible asset, net:		
Developed technology	$ 59.3	$ 59.3
Less: Accumulated amortization	(35.6)	(32.6)
	$ 23.7	$ 26.7
Other assets:		
Debt issuance costs	$ 37.7	$ 33.7
Other	3.7	5.3
	$ 41.4	$ 39.0
Accrued expenses:		
Accrued payroll	$ 30.6	$ 27.9
Sales related reserves	12.2	14.2
Restructuring reserves	12.5	19.5
Other	29.9	39.0
	$ 85.2	$ 100.6
Other long-term liabilities:		
Accrued retirement benefits	$ 36.1	$ 33.7
Cash flow hedge liability	7.7	8.2
Other	0.7	1.0
	$ 44.5	$ 42.9
Other comprehensive loss:		
Foreign currency translation adjustments	$ (1.3)	$ (2.0)
Minimum pension liability	—	(19.6)
Net unrealized losses and adjustments related to cash flow hedges	(10.7)	(12.1)
Unrealized losses on deferred compensation plan investments	(0.6)	(0.6)

	$ (12.6)	$ (34.3)

Estimated amortization expense for the intangible asset is as follows (in millions):

Year ended December 31,	
Remainder of 2003	$ 8.9
2004	11.9
2005	2.9
	$23.7

The activity related to our warranty reserves for the quarter ended April 4, 2003 is as follows (in millions):

Balance as of December 31, 2002	$ 2.7
Provision	—
Usage	(0.3)
Balance as of April 4, 2003	$ 2.4

Note 5: Restructuring, Asset Impairments and Other

Activity related to the Company's restructuring, asset impairments and other is as follows (in millions):

	Reserve Balance at 12/31/02	2003 Charges	2003 Usage	2003 Adjustments	Reserve Balance at 04/04/03
December 2002					
Cash employee separations charges	$ 9.9	$ —	$ (3.7)	$ —	$ 6.2
Cash exit costs	1.8	—	(1.0)	—	0.8
December 2002 Restructuring reserve balance	11.7				7.0
June 2002					
Cash employee separations charges	0.4	—	(0.4)	—	—
Cash exit costs	1.5	—	—	—	1.5
June 2002 Restructuring reserve balance	1.9				1.5
March 2002					
Cash employee separations charges	3.0	—	(0.8)	—	2.2
March 2002 Restructuring reserve balance	3.0				2.2
December 2001					
Cash employee separations charges	0.1	—	—	—	0.1
December 2001 Restructuring reserve balance	0.1				0.1
June 2001					
Cash employee separations charges	1.7	—		(1.7)	—
Cash exit costs	1.1	—	(1.1)	1.7	1.7
June 2001 Restructuring reserve balance	2.8				1.7
	$ 19.5	$ —	$ (7.0)	$ —	$ 12.5

December 2002 Restructuring Program

The remaining restructuring reserves of $7.0 million at April 4, 2003 are comprised of $6.2 million and $0.8 million related to separation costs associated with approximately 130 terminated employees and lease termination and other exit costs, respectively. The Company expects to settle its remaining obligations related to this restructuring program by December 2003.

June 2002 Restructuring Program

The remaining restructuring reserve at April 4, 2003 relates to estimated termination charges associated with a supply agreement. The Company is currently in negotiations to settle this obligation.

March 2002 Restructuring Program

The remaining restructuring reserve of $2.2 million at April 4, 2003 relates to the unpaid separation costs associated with terminated employees and the remaining 15 employees to be terminated under the program. The Company currently expects that the terminations will be completed by June 30, 2003.

December 2001 Restructuring Program

As of April 4, 2003, all impacted employees had been terminated and the Company currently expects that the final severance payments will be made by June 2003.

June 2001 Restructuring Program

The Company reversed the $1.7 million employee separation charges reserve as all employees have been terminated under the program and all severance payments have been made. The Company recorded a charge of $1.7 million related to additional costs associated with the closure of the Guadalajara, Mexico facility. This reserve is expected to be utilized within three months after the sale of the Guadalajara facility.

Note 6: Earnings (Loss) per Common Share

Basic earnings (loss) per share is computed by dividing net income (loss) adjusted for dividends accrued on the Company’s redeemable preferred stock by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share generally assumes the conversion of the convertible redeemable preferred stock into common stock and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options if such conversions or exercises are dilutive. The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. For the first quarter of 2003 and the first quarter of 2002, the effect of stock option shares were not included as the related impact would have been anti-dilutive as the Company generated a net loss in those periods. Had the Company generated net income in the first quarter of 2003 and the first quarter of 2002, the assumed exercise of stock options would have resulted in an additional 0.4 million shares and 3.8 million shares of diluted weighted average common shares outstanding in the first quarter of 2003 and the first quarter of 2002, respectively. This computation excludes an additional 21.0 million and 14.4 million of options outstanding at April 4, 2003 and March 29, 2002 as their exercise price exceeded the average fair market value during those periods and, accordingly, the related impact would have been anti-dilutive. For the first quarter of 2003 and the first quarter of 2002, the conversion of the redeemable preferred stock was not assumed in determining diluted earnings per share as the related impact would have been anti-dilutive. The redeemable preferred stock is convertible into 39.4 million shares and 36.4 million shares of the Company's common stock at a price of $2.82 in the first quarter of 2003 and the first quarter of 2002, respectively. Earnings (loss) per share calculations for quarters ended April 4, 2003 and March 29, 2002 are as follows (in millions, except per share data):

	Quarter Ended	
	April 4, 2003	March 29, 2002
Net loss	$ (29.0)	$ (50.0)
Less: Redeemable preferred stock dividends	(2.2)	(2.1)
Net loss applicable to common stock	(31.2)	(52.1)
Basic weighted average common shares outstanding	176.4	174.8
Add: Incremental shares for:		
Dilutive effect of stock options	—	—
Convertible redeemable preferred stock	—	—
Diluted weighted average common shares outstanding	176.4	174.8
Earnings (loss) per share:		
Basic	$ (0.18)	$ (0.30)
Diluted	$ (0.18)	$ (0.30)

The Company accounts for employee stock options on its common stock in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and provides the pro forma disclosures required by SFAS No. 123 "Accounting for Stock Based Compensation" ("SFAS No. 123") as amended by SFAS No. 148 "Accounting for Stock Based Compensation—Transition and Disclosure". The Company measures compensation expense relating to non-employee stock awards in accordance with SFAS No. 123.

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net loss for the first quarter of 2003 and 2002 would have been increased to the pro forma amounts indicated below (in millions except per share data):

	Quarter Ended	
	April 4, 2003	March 29, 2002
Net loss, as reported	$(29.0)	$ (50.0)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	0.1	0.3
Less: Stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(3.5)	(3.5)
Pro forma net loss	(32.4)	(53.2)
Less: Redeemable preferred stock dividends	(2.2)	(2.1)
Pro forma net loss applicable to common stock	$(34.6)	$ (55.3)
Earnings per share:		
Basic—as reported	$(0.18)	$ (0.30)
Basic—pro forma	$(0.20)	$ (0.32)
Diluted—as reported	$(0.18)	$ (0.30)
Diluted—pro forma	$(0.20)	$ (0.32)

The fair value of each option grant has been estimated at the date of grant while the fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan has been estimated at the beginning of the respective offering periods, both using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	Quarter Ended	
Employee Stock Options	**April 4, 2003**	**March 29, 2002**
Expected life (in years)	5	5
Risk-free interest rate	3.03%	4.47%
Volatility	0.70	0.70

	Quarter Ended	
Employee Stock Purchase Plan	**April 4, 2003**	**March 29, 2002**
Expected life (in years)	0.25	0.25
Risk-free interest rate	1.22%	1.74%
Volatility	0.70	0.70

The weighted-average estimated fair value of employee stock options granted during the first quarter of 2003 and 2002 was $0.76 and $2.05 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during the first quarter of 2003 and 2002 was $0.34 and $0.55, respectively.

Note 7: Long-Term Debt

Long-term debt at April 4, 2003 and December 31, 2002 consists of the following (dollars in millions):

	April 4, 2003			December 31, 2002		
	Amount of Facility	Interest Rate	Balance	Amount of Facility	Interest Rate	Balance
Senior Bank Facilities:						
Tranche A	$ 200.0	6.80%	$ 4.8	$ 200.0	6.4375%	$ 6.6
Tranche B	325.0	6.80%	153.1	325.0	6.4375%	209.9
Tranche C	350.0	6.80%	164.9	350.0	6.4375%	226.0
Tranche D	200.0	6.80%	97.9	200.0	6.4375%	134.1
Tranche R	62.5	6.80%	62.5	—	—	—
Revolver	62.5	6.80%	37.5	150.0	6.4375%	125.0
			520.7			701.6
12% First-Lien Senior Secured Notes due 2010, interest payable semi-annually, net of debt discount of $9.0			191.0			—
12% Second-Lien Senior Secured Notes due 2008, interest payable semi-annually, net of debt discount of $8.3 and $8.6			291.7			291.4
12% Senior Subordinated Notes due 2009, interest payable semi-annually			260.0			260.0
10% Junior Subordinated Note to Motorola due 2011, interest compounded semi-annually, payable at maturity			130.2			126.9
2.25% Note payable to Japanese bank due 2010			23.8			23.3
Loan facility with a Chinese bank (currently 3.5%)			20.0			20.0
			1,437.4			1,423.2
Less: Current maturities			(24.0)			(19.8)
			$1,413.4			$1,403.4

First-Lien Notes

On March 3, 2003, the Issuers issued $200.0 million principal amount of First-Lien Notes in a private offering that was exempt from the registration requirements of the federal securities laws. The First-Lien Notes, which are callable after four years, were issued at 95.467% of par value and generated net proceeds of approximately $180.9 million after deducting the discount and related issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company’s senior bank facilities, including $25.0 million relating to the Company’s revolving credit facility. In connection with the prepayment, the Company wrote off $3.5 million of debt issuance costs in the first quarter of 2003.

The First-Lien Notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by the Company’s domestic restricted subsidiaries. In addition, the First-Lien Notes and related guarantees are secured on a first-priority basis by the assets that secure the senior bank facilities and they rank equal in right of payment with all of the Company’s and the guarantors’ existing and future senior indebtedness and senior to the Company’s and the guarantors’ existing and future senior subordinated and subordinated indebtedness and effectively junior to all of the liabilities of the Company’s subsidiaries that have not guaranteed such notes. In addition, the First-Lien Notes and the related guarantees are secured on a second-priority basis by the capital stock or other equity interests of the Company’s domestic subsidiaries, 65% of the capital stock or other equity interests of the Company’s first-tier foreign subsidiaries and substantially all other assets, in each case that are held by the Company or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

The Issuers filed an exchange offer registration statement on May 2, 2003 relating to the First-Lien Notes pursuant to a registration rights agreement. The Securities and Exchange Commission declared the registration statement effective on May 8, 2003.

Second-Lien Notes

On May 6, 2002, the Issuers issued $300.0 million principal amount of second lien notes (the “Second-Lien Notes”) in a private offering that was exempt from the registration requirements of the federal securities laws. The Second-Lien Notes, which are callable after four years, were issued at 96.902% of par value and generated net proceeds of $278.6 million after deducting the discount and related issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company’s senior bank facilities. In connection with this prepayment, the Company wrote off $6.5 million of debt issuance costs during the second quarter of 2002. Because the amount outstanding under the senior bank facilities was reduced below $750.0 million, the supplemental interest charges were reduced from 3.0% to 1.0%. The Company exercised its option to terminate the supplemental interest charges by paying the entire accrued balance of supplemental interest charges of $26.9 million during the first quarter of 2003. The Second-Lien Notes accrued interest at the rate of 12% until February 6, 2003, when the related annual interest increased to 13%. The increased interest rate will remain in effect unless on or prior to August 6, 2003 the Company issues $100.0 million of its common stock or certain convertible preferred stock to financial sponsors and uses the net proceeds to prepay additional amounts outstanding under its senior bank facilities or under any other credit facility secured by a first-priority lien and permanently reduces the related loan commitments in an amount equal to the amount prepaid. Interest on Second-Lien Notes is payable semi-annually on May 15 and November 15.

The Second-Lien Notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by the Company’s domestic restricted subsidiaries. In addition, the Second-Lien Notes and the related guarantees are secured on a second-priority basis by the capital stock or other equity interests of the Company’s domestic subsidiaries, 65% of the capital stock or other equity interests of the Company’s first-tier foreign subsidiaries and substantially all other assets, in each case that are held by the Company or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

The Issuers filed an exchange offer registration statement on October 1, 2002 relating to the Second-Lien Notes pursuant to a registration rights agreement. The Securities and Exchange Commission declared the registration statement effective on January 27, 2003.

Annual maturities relating to the Company's long-term debt as of April 4, 2003 are as follows (in millions):

Remainder of 2003	$ 12.3
2004	15.5
2005	155.8
2006	194.5
2007	176.8
Thereafter	882.5
Total	$ 1,437.4

As a result of the consolidation of Leshan, the Company's long-term debt includes a $20 million loan facility between Leshan and a Chinese Bank. Aggregate loans under this facility, which was entered into in November 2000, are comprised of $16 million of borrowings denominated in U.S. dollars and $4 million of borrowings denominated in Chinese Renminbi (based on current exchange rates). Interest on these loans is payable quarterly and accrues at a variable rate based on published market rates in China for six-year term loans. Scheduled principal payments consist of $10.5 million due in the fourth quarter of 2003 and $9.5 million due in the first quarter of 2004. The Company is in refinancing discussions with the bank at this time. Under the current agreement, the Company has the ability to extend the maturity of this loan for three years under the same terms and conditions.

The Company and SCI LLC are co-issuers of the First-Lien Notes (issued in March 2003), the Second-Lien Notes, and the Senior Subordinated Notes (collectively, "the Notes".) The Company's other domestic subsidiaries (collectively, the "Guarantor Subsidiaries") fully and unconditionally guarantee on a joint and several basis, the Issuers' obligations under the Notes. The Guarantor Subsidiaries include Semiconductor Components Industries of Rhode Island, Inc, an operating subsidiary, as well as holding companies whose net assets consist primarily of investments in the Company's Czech subsidiaries, the Leshan and nominal equity interests in certain of the Company's other foreign subsidiaries. The Company's remaining subsidiaries (collectively, the "Non-Guarantor Subsidiaries") are not guarantors of the Notes.

The Company does not believe that the separate financial statements and other disclosures concerning the Guarantor Subsidiaries provide any additional information that would be material to investors in making an investment decision. Condensed consolidating financial information for the Issuers, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries is as follows (in millions):

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of April 4, 2003						
Cash and cash equivalents	$ —	$ 125.4	$ —	$ 64.6	$ —	$ 190.0
Receivables, net	—	37.6	—	92.1	—	129.7
Inventories, net	—	21.8	2.5	163.2	(17.0)	170.5
Other current assets	—	6.0	0.3	31.7	—	38.0
Total current assets	—	190.8	2.8	351.6	(17.0)	528.2
Property, plant and equipment, net	—	95.8	30.9	431.7	—	558.4
Goodwill and other intangibles, net	—	8.1	92.9	—	—	101.0
Investments and other assets	(624.9)	80.9	49.1	1.4	534.9	41.4
Total assets	$ (624.9)	$ 375.6	$ 175.7	$ 784.7	$ 517.9	$ 1,229.0
Accounts payable	$ —	$ 22.0	$ 2.2	$ 83.5	$ —	$ 107.7
Accrued expenses and other current liabilities	—	95.4	1.7	47.7	2.0	146.8
Deferred income on sales to distributors	—	31.3	—	36.9	—	68.2
Total current liabilities	—	148.7	3.9	168.1	2.0	322.7
Long-term debt(1)	742.7	1,392.8	—	20.6	(742.7)	1,413.4
Other long-term liabilities	—	31.0	—	14.4	—	45.4
Intercompany(1)	(787.1)	(567.8)	162.1	408.0	784.8	—
Total liabilities	(44.4)	1,004.7	166.0	611.1	44.1	1,781.5
Minority interests in consolidated subsidiaries	—	—	—	—	28.0	28.0
Redeemable preferred stock	112.3	—	—	—	—	112.3
Stockholders’ equity (deficit)	(692.8)	(629.1)	9.7	173.6	445.8	(692.8)
Liabilities, minority interests and stockholders’ equity (deficit)	$ (624.9)	$ 375.6	$ 175.7	$ 784.7	$ 517.9	$ 1,229.0

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of December 31, 2002						
Cash and cash equivalents	$ —	$ 121.5	$ —	$ 68.9	$ —	$ 190.4
Receivables, net	—	38.2	—	77.2	—	115.4
Inventories, net	—	25.4	0.5	150.8	(13.2)	163.5
Other current assets	—	7.1	0.1	38.6	—	45.8
Total current assets	—	192.2	0.6	335.5	(13.2)	515.1
Property, plant and equipment, net	—	104.4	33.5	447.4	—	585.3
Goodwill and other intangibles, net	—	8.1	95.9	—	—	104.0
Investments and other assets	(596.3)	68.0	47.2	1.3	518.8	39.0
Total assets	$ (596.3)	$ 372.7	$ 177.2	$ 784.2	$ 505.6	$ 1,243.4
Accounts payable	$ —	$ 25.3	$ 1.7	$ 47.1	$ —	$ 74.1
Accrued expenses and other current liabilities	—	134.9	1.6	36.6	1.9	175.0
Deferred income on sales to distributors	—	32.3	—	38.5	—	70.8
Total current liabilities	—	192.5	3.3	122.2	1.9	319.9
Long-term debt(1)	551.4	1,372.2	—	31.2	(551.4)	1,403.4
Other long-term liabilities	—	28.3	—	16.8	—	45.1
Intercompany(1)	(595.7)	(621.7)	158.9	465.0	593.5	—
Total liabilities	(44.3)	971.3	162.2	635.2	44.0	1,768.4
Minority interests in consolidated subsidiaries	—	—	—	—	27.0	27.0
Redeemable preferred stock	110.1	—	—	—	—	110.1
Stockholders’ equity (deficit)	(662.1)	(598.6)	15.0	149.0	434.6	(662.1)
Liabilities, minority interests and stockholders’ equity (deficit)	$ (596.3)	$ 372.7	$ 177.2	$ 784.2	$ 505.6	$ 1,243.4

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the quarter ended April 4, 2003						
Revenues	$ —	$ 136.5	$ 15.5	$ 351.2	$ (233.7)	$ 269.5
Cost of sales	—	120.8	11.2	293.0	(229.9)	195.1
Gross profit	—	15.7	4.3	58.2	(3.8)	74.4
Research and development	—	5.6	3.5	8.6	—	17.7
Selling and marketing	—	8.9	0.1	7.1	—	16.1
General and administrative	—	12.7	—	8.6	—	21.3
Amortization of intangible	—	—	—	—	—	—
Restructuring, asset impairments and other	—	—	3.0	—	—	3.0
Total operating expenses	—	27.2	6.6	24.3	—	58.1
Operating income (loss)	—	(11.5)	(2.3)	33.9	(3.8)	16.3
Interest expense, net	—	(24.8)	(4.9)	(8.7)	—	(38.4)
Loss on debt prepayment and other	—	(3.5)	—	—	—	(3.5)
Equity earnings	(50.5)	9.8	1.9	—	38.8	—
Income (loss) before income taxes, minority interests and cumulative effect of accounting change	(50.5)	(30.0)	(5.3)	25.2	35.0	(25.6)
Income tax benefit (provision)	—	(0.9)	—	(1.3)	—	(2.2)
Minority interests	—	—	—	—	(1.2)	(1.2)
Cumulative effect of accounting change	—	(21.5)	—	—	—	(21.5)
Net income (loss)	$ (50.5)	$ (52.4)	$ (5.3)	$ 23.9	$ 33.8	$ (50.5)

	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the quarter ended March 29, 2002						
Revenues	$ —	$ 127.6	$ 20.7	$ 327.5	$ (204.8)	$ 271.0
Cost of sales	—	132.8	15.4	269.2	(208.3)	209.1
Gross profit	—	(5.2)	5.3	58.3	3.5	61.9
Research and development	—	10.3	1.2	5.8	—	17.3
Selling and marketing	—	7.4	0.5	6.7	—	14.6
General and administrative	—	16.6	—	12.6	—	29.2
Amortization of intangible	—	—	3.0	—	—	3.0
Restructuring, asset impairments and other	—	7.1	—	—	—	7.1
Total operating expenses	—	41.4	4.7	25.1	—	71.2
Operating income (loss)	—	(46.6)	0.6	33.2	3.5	(9.3)
Interest expense, net	—	(19.1)	(4.7)	(12.2)	—	(36.0)
Equity earnings	(50.0)	41.5	(0.5)	—	9.0	—
Income (loss) before income taxes and minority interests	(50.0)	(24.2)	(4.6)	21.0	12.5	(45.3)
Income tax benefit (provision)	—	(1.7)	—	(2.4)	—	(4.1)
Minority interests	—	—	—	—	(0.6)	(0.6)
Net income (loss)	$ (50.0)	$ (25.9)	$ (4.6)	$ 18.6	$ 11.9	$ (50.0)

	Issuers					
	ON Semiconductor Corporation	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the quarter ended April 4, 2003						
Net cash provided by (used in) operating activities	$ —	$ (0.8)	$ 0.9	$ 4.5	$ —	$ 4.6
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(0.4)	(0.9)	(4.9)	—	(6.2)
Net cash used in investing activities	—	(0.4)	(0.9)	(4.9)	—	(6.2)
Cash flows from financing activities:						
Intercompany loans	—	(83.0)	—	83.0	—	—
Intercompany loan repayments	—	87.2	—	(87.2)	—	—
Proceeds from debt issuance, net of closing costs and discount	—	190.9	—	—	—	190.9
Payment of debt issuance costs	—	(9.3)	—	—	—	(9.3)
Repayment of long term debt	—	(180.9)	—	—	—	(180.9)
Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan	—	0.2	—	—	—	0.2
Net cash provided by (used in) financing activities	—	5.1	—	(4.2)	—	0.9
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.3	—	0.3
Net increase (decrease) in cash and cash equivalents	—	3.9	—	(4.3)	—	(0.4)
Cash and cash equivalents, beginning of period	—	121.5	—	68.9	—	190.4
Cash and cash equivalents, end of period	$ —	$ 125.4	$ —	$ 64.6	$ —	$ 190.0
For the quarter ended March 29, 2002						
Net cash provided by (used in) operating activities	$ —	$ (104.8)	$ —	$ 86.0	$ —	$ (18.8)
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(0.4)	(0.1)	(12.3)	—	(12.8)
Proceeds from sales of property, plant and equipment	—	0.2	—	—	—	0.2
Net cash used in investing activities	—	(0.2)	(0.1)	(12.3)	—	(12.6)
Cash flows from financing activities:						
Intercompany loans	—	(72.5)	—	72.5	—	—
Intercompany loan repayments	—	140.4	—	(140.4)	—	—
Payment of capital lease obligation	—	(0.7)	—	—	—	(0.7)
Repayment of long term debt	—	(2.8)	—	—	—	(2.8)
Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan	—	1.2	—	—	—	1.2
Net cash provided by (used in) financing activities	—	65.6	—	(67.9)	—	(2.3)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(0.1)	—	(0.1)
Net increase (decrease) in cash and cash equivalents	—	(39.4)	(0.1)	5.7	—	(33.8)
Cash and cash equivalents, beginning of period	—	124.9	0.1	61.0	—	186.0
Cash and cash equivalents, end of period	$ —	$ 85.5	$ —	$ 66.7	$ —	$ 152.2

(1) For purposes of this presentation, the First-Lien Notes, Second-Lien Notes, and Senior Subordinated Notes have been reflected in the condensed balance sheets of both the Company and SCI LLC with the appropriate offset reflected in the eliminations column. Interest expense has been allocated to SCI LLC only.

Note 8: Commitments and Contingencies

Other Contingencies

The Company's manufacturing facility in Phoenix, Arizona is located on property that is a "Superfund" site, a property listed on the National Priorities List and subject to clean-up activities under the Comprehensive Environmental Response, Compensation, and Liability Act. Motorola is actively involved in the cleanup of on-site solvent contaminated soil and groundwater and off-site contaminated groundwater pursuant to consent decrees with the State of Arizona. As part of the August 4, 1999 recapitalization, Motorola has retained responsibility for this contamination, and has agreed to indemnify the Company with respect to remediation costs and other costs or liabilities related to this matter.

The Company is a party to a variety of agreements entered into in the ordinary course of business pursuant to which it may be obligated to indemnify the other parties for certain liabilities that arise out of or relate to the subject matter of the agreements. Some of the agreements entered into by the Company require the Company to indemnify the other party against losses due to intellectual property infringement, property damage including environmental contamination, personal injury, failure to comply with applicable laws, the Company's negligence or willful misconduct, or breach of representations and warranties and covenants related to such matters as title to sold assets.

The Company is a party to various agreements with Motorola, which were entered into in connection with the Company's separation from Motorola. Pursuant to these agreements, the Company has agreed to indemnify Motorola for losses due to, for example, breach of representations and warranties and covenants, damages arising from assumed liabilities or relating to allocated assets, and for specified environmental matters. The Company's obligations under these agreements may be limited in terms of time and/or amount and payment by the Company is conditioned on Motorola making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge Motorola's claims.

The Company and its subsidiaries provide for indemnification of directors, officers and other persons in accordance with limited liability agreements, certificates of incorporation, by-laws, articles of association or similar organizational documents, as the case may be. The Company maintains directors' and officers' insurance, which should enable it to recover a portion of any future amounts paid.

In addition to the above, from time to time the Company provides standard representations and warranties to counterparties in contracts in connection with sales of our securities and the engagement of financial advisors and also provides indemnities that protect the counterparties to these contracts in the event they suffer damages as a result of a breach of such representations and warranties or in certain other circumstances relating to the sale of securities or their engagement by the Company.

While the Company's future obligations under certain agreements may contain limitations on liability for indemnification, other agreements do not contain such limitations and under such agreements and it is not possible to predict the maximum potential amount of future payments due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under any of these indemnities have not had a material effect on the Company's business, financial condition, results of operations or cash flows. Additionally, the Company does not believe that any amounts that it may be required to pay under these indemnities in the future will be material to the Company's business, financial condition, results of operations or cash flows.

Legal Matters

The Company is involved in a variety of legal matters that arose in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters, including the matters described in the next paragraphs, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

During the period July 5, 2001 through July 27, 2001, the Company was named as a defendant in three shareholder class action lawsuits that were filed in federal court in New York City against the Company and certain of its former officers, current and former directors and the underwriters for its initial public offering. The lawsuits allege violations of the federal securities laws and have been docketed in the U.S. District Court for the Southern District of New York as: *Abrams v. ON Semiconductor Corp.*, *et al.*, C.A. No. 01-CV-6114; *Breuer v. ON Semiconductor Corp.*, *et al.*, C.A. No. 01-CV-6287; and *Cohen v. ON Semiconductor Corp.*, *et al.*, C.A. No. 01-CV-6942. On April 19, 2002, the plaintiffs filed a single consolidated amended complaint that supersedes the individual complaints originally filed. The amended complaint alleges, among other things, that the underwriters of the Company's initial public offering improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of the Company's common stock in the aftermarket as conditions of receiving shares in its initial public offering. The amended complaint further alleges that these supposed practices of the underwriters should have been disclosed in the Company's initial public offering prospectus and registration statement. The amended complaint alleges violations of both the registration and antifraud provisions of the federal securities laws and seeks unspecified damages. We understand that various other plaintiffs have filed substantially similar class action cases against approximately 300 other publicly traded companies and their public offering underwriters in New York City, which along with the cases against the Company have all been transferred to a single federal district judge for purposes of coordinated case management. The Company believes that the claims against it are without merit and have defended, and intend to continue to defend, the litigation vigorously. The litigation process is inherently uncertain, however, and the Company cannot guarantee that the outcome of these claims will be favorable.

On July 15, 2002, together with the other issuer defendants, the Company filed a collective motion to dismiss the consolidated, amended complaints against the issuers on various legal grounds common to all or most of the issuer defendants. The underwriters also filed separate motions to dismiss the claims against them. In addition, the parties have stipulated to the voluntary dismissal without prejudice of our individual current and former officers and directors who were named as defendants in our litigation, and they are no longer parties to the lawsuit. On February 19, 2003, the Court issued its ruling on the motions to dismiss filed by the underwriter and issuer defendants. In that ruling the Court granted in part and denied in part those motions. As to the claims brought against the Company under the antifraud provisions of the securities laws, the Court dismissed all of these claims with prejudice, and refused to allow plaintiffs the opportunity to re-plead these claims. As to the claims brought under the registration provisions of the securities laws, which do not require that intent to defraud be pleaded, the Court denied the motion to dismiss these claims as to the Company and as to substantially all of the other issuer defendants as well. The Court also denied the underwriter defendants' motion to dismiss in all respects. While the Company can make no promises or guarantees as to the outcome of these proceedings, it believes that the final result of these actions will have no material effect on the Company's consolidated financial condition, results of operations or cash flows.

In June 2003, upon the determination of a special independent committee of our Board of Directors, the Company elected to participate in a proposed settlement with the plaintiffs in this litigation. If ultimately approved by the Court, this proposed settlement would result in a dismissal, with prejudice, of all claims in the litigation against the Company and against any of the other issuer defendants who elect to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation against those defendants is continuing. The proposed settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of $1 billion by the participating issuer defendants. If recoveries totaling less than $1 billion are obtained by the class members from the underwriter defendants, the class members will be entitled to recover the difference between $1 billion and the aggregate amount of those recoveries from the participating issuer defendants. If recoveries totaling $1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, the Company and any other participating issuer defendants will be required to assign to the class members certain claims that they may have against the underwriters of our initial public offerings.

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. The Company expects that its insurance proceeds will be sufficient for these purposes and that the Company will not otherwise be required to contribute to the proposed settlement. Consummation of the proposed settlement is conditioned upon, among other things, negotiating, executing, and filing with the Court final settlement documents, and final approval by the Court. If the proposed settlement described above is not consummated, however, the Company intends to continue to defend the litigation vigorously. While the Company can make no promises or guarantees as to the outcome of these proceedings, the Company believes that the final result of these actions will have no material effect on its consolidated financial condition, results of operations or cash flows.

Note 9: Related Party Transactions

Related party activities between the Company and Motorola, excluding those separately disclosed in the accompanying financial statements are as follows (in millions):

	Quarter Ended	
	April 4, 2003	March 29, 2002
Cash paid for:		
Purchases of manufacturing services from Motorola	$ 1.9	$ 3.2
Cost of other services, rent and equipment purchased from Motorola	$ 0.4	$ 0.5
Cash received for:		
Freight sharing agreement with Motorola	$ —	$ 5.7
Rental of property and equipment to Motorola	$ 2.2	$ 2.5
Product sales to Motorola	$ 15.4	$ 24.1

Note 10: Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Under this standard, asset retirement obligations will be recognized when incurred at their estimated fair value. In addition, the cost of the asset retirement obligation will be capitalized as a part of the assets' carrying value and depreciated over the assets' remaining useful life. The Company adopted SFAS No. 143 effective January 1, 2003. The implementation of SFAS No. 143 did not have a material effect on the Company's results of operations.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB No. 30 for classification as an extraordinary item shall be reclassified. SFAS No. 145 also amends FASB Statement No. 13, "Accounting for Leases" and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company adopted SFAS No. 145 effective January 1, 2003. The adoption of SFAS No. 145 will require the reclassification within the Company's statement of operations of losses on debt prepayment previously classified as extraordinary items.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment to FAS 123." SFAS No. 148 provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in annual and interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for the Company's fiscal year 2002. The interim disclosure requirements are effective for the first quarter of fiscal year 2003 and are provided in Note 6 to the Company's unaudited consolidated financial statements. The Company has no plans to change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately and such disclosures have been included in Note 4 "Balance Sheet Information." The Company does not expect the adoption of FIN No. 45 to have a material effect on its financial condition or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS 149 amends and clarifies the accounting guidance on (1) derivative instruments (including certain derivative instruments embedded in other contracts) and (2) hedging activities that fall within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS 149 is effective (1) for contracts entered into or modified after June 30, 2003, with certain exceptions, and (2) for hedging relationships designated after June 30. The Company is currently evaluating the impact that this pronouncement will have on its financial condition and results of operations.

EXHIBIT 99.4

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2002 and 2001 and for
the Years Ended December 31, 2002, 2001 and 2000

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Member
of Semiconductor Components Industries, LLC

In our opinion, the accompanying consolidated balance sheet and the related statements of operations, of member's equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Semiconductor Components Industries, LLC and its subsidiaries (a wholly-owned subsidiary of ON Semiconductor Corporation) at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 4 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets effective January 1, 2002 as well as its methods of accounting for sales to distributors, derivative financial instruments and hedging activities effective January 1, 2001.

As described in Note 18 to the consolidated financial statements, the Company has reclassified losses on debt prepayments within its consolidated statement of operations.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona
February 5, 2003, except for
Note 8 for which the date is
March 3, 2003 and Note 18 for which the
date is September 2, 2003

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31		July 4,
	2002	2001	2003
		(In millions)	(unaudited)
ASSETS			
Cash and cash equivalents	$ 176.4	$ 174.2	$ 164.5
Receivables, net (including $4.7, $21.3 and $7.3 due from Motorola)	111.7	132.3	125.8
Inventories, net	155.0	180.2	174.7
Other current assets	33.0	33.4	26.9
Deferred income taxes	6.4	7.5	7.4
Total current assets	482.5	527.6	499.3
Property, plant and equipment, net	389.5	482.8	349.4
Deferred income taxes	—	0.4	—
Goodwill	77.3	77.3	77.3
Intangibles assets, net	26.7	38.6	—
Notes receivable from affiliates	130.6	131.1	122.0
Other assets	38.7	41.7	39.8
Total assets	$ 1,145.3	$ 1,299.5	$ 1,087.8
LIABILITIES AND MEMBER'S EQUITY (DEFICIT)			
Accounts payable (including $0.1, $3.3 and $0.2 payable to Motorola)	$ 63.8	$ 102.7	$ 100.5
Accrued expenses (including $0.7, $11.7 and $0 payable to Motorola)	97.0	101.5	80.9
Due to affiliates, net	5.6	1.0	14.3
Income taxes payable	14.8	6.1	20.5
Accrued interest	43.6	13.4	27.9
Deferred income on sales to distributors	70.8	99.4	64.3
Current portion of long-term debt	9.3	12.4	4.9
Total current liabilities	304.9	336.5	313.3
Long-term debt (including $126.9, $115.2 and $133.4 payable to Motorola)	1,393.9	1,374.5	1,416.7
Other long-term liabilities	42.9	48.3	40.0
Deferred income taxes	2.2	—	0.7
Total liabilities	1,743.9	1,759.3	1,770.7
Commitments and contingencies (See Note 15)	—	—	—
Contributed capital	793.5	785.9	794.3
Accumulated other comprehensive income (loss)	(34.3)	(32.8)	(11.3)
Accumulated deficit	(1,357.8)	(1,212.9)	(1,465.9)
Total member's equity (deficit)	(598.6)	(459.8)	(682.9)
Total liabilities and member's equity (deficit)	$ 1,145.3	$ 1,299.5	$ 1,087.8

The accompanying notes are an integral part of these consolidated financial statements.

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,			Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
			(In millions)		
Total revenues (including $87.7, $98.9, $206.0, $36.7 and $40.2 from Motorola)	$1,084.0	$1,213.3	$2,070.2	$ 520.8	$ 546.5
Cost of sales	805.9	991.0	1,356.8	383.8	412.3
Gross profit	278.1	222.3	713.4	137.0	134.2
Operating expenses:					
Research and development	67.9	80.9	69.2	34.6	33.5
Selling and marketing	61.2	74.8	100.1	31.7	29.8
General and administrative	102.9	133.8	233.4	37.4	55.9
Amortization of intangibles	11.9	22.6	16.8	5.9	6.0
Write-off of acquired in-process research and development	—	—	26.9	—	—
Restructuring, asset impairments and other	26.7	150.1	4.8	34.6	10.2
Total operating expenses	270.6	462.2	451.2	144.2	135.4
Operating income (loss)	7.5	(239.9)	262.2	(7.2)	(1.2)
Interest expense, net	(138.1)	(133.6)	(131.2)	(72.0)	(71.0)
Loss on debt prepayment	(6.5)	—	(29.2)	(3.5)	(6.5)
Income (loss) before income taxes and cumulative effect of accounting change	(137.1)	(373.5)	101.8	(82.7)	(78.7)
Income tax provision	(7.8)	(342.9)	(34.8)	(3.9)	(5.8)
Income (loss) before cumulative effect of accounting change	(144.9)	(716.4)	67.0	(86.6)	(84.5)
Cumulative effect of accounting change (net of income taxes of $38.8 in 2001 and $0 in 2003)	—	(116.4)	—	(21.5)	—
Net income (loss)	$ (144.9)	$ (832.8)	$ 67.0	$ (108.1)	$ (84.5)

The accompanying notes are an integral part of these consolidated financial statements.

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF MEMBER'S EQUITY (DEFICIT)

	Contributed Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
		(In millions)		
Balance at December 31, 1999	$ 359.5	$ 2.7	$ (447.1)	$ (84.9)
Net capital contributions from Member	301.9			301.9
Comprehensive income (loss):				
Net income	—	—	67.0	67.0
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	—	(3.1)	—	(3.1)
Additional minimum pension liability	—	(0.3)	—	(0.3)
Other comprehensive loss		(3.4)		(3.4)
Comprehensive income		—		63.6
Balance at December 31, 2000	661.4	(0.7)	(380.1)	280.6
Net capital contributions from Member	124.5			124.5
Comprehensive income (loss):				
Net loss	—	—	(832.8)	(832.8)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	—	(3.9)	—	(3.9)
Additional minimum pension liability	—	(13.5)	—	(13.5)
Cumulative effect of accounting change	—	(5.7)	—	(5.7)
Effects of cash flow hedges	—	(9.0)	—	(9.0)
Other comprehensive loss		(32.1)		(32.1)
Comprehensive loss		—		(864.9)
Balance at December 31, 2001	785.9	(32.8)	(1,212.9)	(459.8)
Net capital contributions from Member	7.6			7.6
Comprehensive income (loss), net of tax:				
Net loss	—	—	(144.9)	(144.9)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	—	2.3		2.3
Additional minimum pension liability	—	(5.8)		(5.8)
Unrealized losses on deferred compensation plan investments	—	(0.6)		(0.6)
Effects of cash flow hedges	—	2.6		2.6
Other comprehensive loss		(1.5)		(1.5)
Comprehensive loss		—		(146.4)
Balance at December 31, 2002	793.5	(34.3)	(1,357.8)	(598.6)
Net capital contributions from Member (unaudited)	0.8			0.8
Comprehensive income (loss), net of tax (unaudited):				
Net loss (unaudited)	—	—	(108.1)	(108.1)
Other comprehensive income (loss), net of tax (unaudited):				
Foreign currency translation adjustment (unaudited)	—	0.3		0.3
Additional minimum pension liability (unaudited)	—	19.6		19.6
Effects of cash flow hedges (unaudited)	—	3.1		3.1
Other comprehensive loss (unaudited)		23.0		23.0
Comprehensive loss (unaudited)		—		(85.1)
Balance at July 4, 2003 (unaudited)	$ 794.3	$ (11.3)	$ (1,465.9)	$ (682.9)

The accompanying notes are an integral part of these consolidated financial statements.

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,			Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
			(In millions)		
Cash flows from operating activities:					
Net income (loss)	$ (144.9)	$ (832.8)	$ 67.0	$ (108.1)	$ (84.5)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	122.3	153.5	149.4	57.7	59.5
Write-off of acquired in-process research and development	—	—	26.9	—	—
Loss on debt prepayment	6.5	—	29.2	—	6.5
Cumulative effect of accounting change	—	155.2	—	21.5	—
Amortization of debt issuance costs and debt discount	8.7	6.0	5.9	5.0	3.6
Provision for excess inventories	12.1	50.9	44.1	6.3	10.8
Non-cash impairment of property, plant and equipment	11.5	56.2	—	10.5	8.4
Non-cash interest on junior subordinated note payable to Motorola	11.7	10.7	9.6	6.5	5.6
Non-cash write down of intangible asset	—	—	—	20.8	—
Stock compensation expense	4.5	5.0	0.7	0.1	1.2
Deferred income taxes	5.2	318.5	(9.1)	(2.0)	2.0
Other	(0.8)	(2.2)	(0.7)	1.4	0.8
Changes in assets and liabilities:					
Receivables	22.8	135.0	0.2	(12.1)	(2.6)
Inventories	13.4	17.7	(76.0)	(26.0)	13.9
Other assets	(3.6)	(2.0)	(27.6)	7.9	4.1
Accounts payable	(39.2)	(54.3)	31.9	36.7	(23.4)
Accrued expenses	(7.7)	(63.0)	46.4	(15.0)	(10.7)
Due to affiliates	4.9	(10.2)	13.7	8.7	10.8
Income taxes payable	8.7	(11.6)	(13.7)	5.7	(1.3)
Accrued interest	19.2	5.7	(12.2)	(15.7)	16.5
Deferred income on sales to distributors	(28.6)	(82.8)	—	(6.5)	(24.1)
Other long-term liabilities	0.1	5.4	(3.8)	(2.0)	4.6
Net cash provided by (used in) operating activities	26.8	(139.1)	281.9	1.4	1.7
Cash flows from investing activities:					
Purchases of property, plant and equipment	(23.9)	(109.4)	(176.2)	(21.6)	(12.1)
Investment in business, net of cash acquired	—	—	(253.2)	—	—
Other investments	—	(0.5)	(2.3)	—	—
Loans to affiliates	—	(5.0)	(43.1)	(4.0)	—
Proceeds from repayment of loans to affiliates	0.5	—	—	11.8	
Proceeds from sales of property, plant and equipment	4.8	13.8	18.1	—	1.3
Net cash used in investing activities	(18.6)	(101.1)	(456.7)	(13.8)	(10.8)
Cash flows from financing activities:					
Net capital contributions from Member	2.6	119.5	301.2	0.7	1.9
Proceeds from debt issuance	290.7	—	—	190.9	—
Proceeds from senior credit facilities and other borrowings	—	125.0	226.1	—	290.7
Payment of capital lease obligation	(1.1)	(1.9)	—	—	(1.1)
Payment of debt issuance costs	(12.1)	(5.1)	(3.2)	(10.6)	(11.4)
Repayment of senior credit facilities, including prepayment penalty in 2000	(287.1)	(5.6)	(131.5)	(180.9)	(283.3)
Repayment of senior subordinated notes, including prepayment penalty	—	—	(156.8)	—	—
Net cash provided by (used in) financing activities	(7.0)	231.9	235.8	0.1	(3.2)
Effect of exchange rate changes on cash and cash equivalents	1.0	0.8	(0.1)	0.4	0.9
Net increase (decrease) in cash and cash equivalents	2.2	(7.5)	60.9	(11.9)	(11.4)
Cash and cash equivalents, beginning of period	174.2	181.7	120.8	176.4	174.2
Cash and cash equivalents, end of period	$ 176.4	$ 174.2	$ 181.7	$ 164.5	$ 162.8

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

Semiconductor Components Industries, LLC ("SCI LLC" or the "Company") is a wholly-owned subsidiary of ON Semiconductor Corporation ("ON Semiconductor"). The Company is one of the largest independent suppliers of semiconductor components in the world. Formerly known as the Semiconductor Components Group of the Semiconductor Products Sector of Motorola, Inc., ON Semiconductor was a wholly-owned subsidiary of Motorola Inc. ("Motorola") prior to its August 4, 1999 recapitalization (the "Recapitalization"). ON Semiconductor continues to hold, through direct and indirect subsidiaries, substantially all the assets and operations of the Semiconductor Components Group of Motorola's Semiconductor Products Sector.

On August 4, 1999, ON Semiconductor was recapitalized and certain related transactions were effected pursuant to an agreement among ON Semiconductor, the Company, Motorola and affiliates of Texas Pacific Group ("TPG"). As a result of the Recapitalization, an affiliate of TPG owned approximately 91% and Motorola owned approximately 9% of the outstanding common stock of ON Semiconductor. In addition, as part of these transactions, TPG received 1,500 shares and Motorola received 590 shares of ON Semiconductor's mandatorily redeemable preferred stock with a liquidation value of $209 million plus accrued and unpaid dividends. Motorola also received a $91 million junior subordinated note issued by the Company. Cash payments to Motorola in connection with the Recapitalization were financed through equity investments by affiliates of TPG totaling $337.5 million, borrowings totaling $740.5 million under the Company's $875 million senior bank facilities and the issuance of $400 million of 12% senior subordinated notes due August 2009. Because TPG's affiliate did not acquire substantially all of ON Semiconductor's common stock, the basis of ON Semiconductor's assets and liabilities for financial reporting purposes was not impacted by the Recapitalization.

The accompanying unaudited financial statements as of July 4, 2003 and for the six months ended June 28, 2002 and July 4, 2003, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information and on the same basis of presentation as the audited financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements. In the opinion of the Company's management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited.

Note 2: Liquidity

During the six months ended July 4, 2003, ON Semiconductor incurred a net loss of $108.0 million, compared to a net loss of $81.8 million, for the six months ended June 28, 2002. ON Semiconductor's net loss included restructuring, asset impairments and other charges of $34.6 million for the six months ended July 4, 2003 as compared to $10.2 million for the six months ended June 28, 2002. ON Semiconductor's net loss for the first six months of 2003 also included a charge of $21.5 million relating to a change in accounting principle. Net cash provided by operating activities was $16.7 million in the six months ended July 4, 2003, as compared to net cash provided by operating activities of $12.5 million for the six months ended June 28, 2002.

At July 4, 2003, ON Semiconductor had $181.2 million in cash and cash equivalents, net working capital of $196.5 million, term or revolving debt of $1,441.6 million and a stockholders' deficit of $750.7 million. ON Semiconductor's long-term debt includes $520.7 million under its senior bank facilities; $292.0 million (net of discount) of its 13% second lien senior secured notes due 2008; $191.2 million (net of discount) of its 12% first lien senior secured notes due 2010; $260.0 million of its 12% senior subordinated notes due 2009; $133.4 million under a 10% junior subordinated note payable to Motorola due 2011; $23.4 million under a note payable to a Japanese bank due 2010; $20.0 million under a loan facility with a Chinese bank and $0.9 million under a capital lease obligation. ON Semiconductor was in compliance with all of the covenants contained in its various debt agreements as of July 4, 2003 and expects to remain in compliance over the next twelve months.

During the year ended December 31, 2002, ON Semiconductor incurred a net loss of $141.9 million compared to a net loss of $831.4 million in 2001 and net income of $71.1 million in 2000. ON Semiconductor's net results included restructuring, asset impairments and other of $27.7 million, $150.4 million and $4.8 million in 2002, 2001 and 2000, respectively, as well as interest expense of $149.5 million, $139.6 million and $135.3 million, respectively. ON Semiconductor's operating activities provided cash of $46.4 million in 2002 and $312.2 million in 2000 and used cash of $116.4 million in 2001.

At December 31, 2002, ON Semiconductor had $190.4 million in cash and cash equivalents, net working capital of $195.2 million, term or revolving debt of $1,423.2 million and a stockholders' deficit of $662.1 million. ON Semiconductor's long-term debt includes $701.6 million under its senior bank facilities; $291.4 million (net of discount) of its 12% senior secured notes due 2008; $260.0 million of its 12% senior subordinated notes due 2009; $126.9 million under a 10% junior subordinated note payable to Motorola due 2011; $20.0 million loan facility with a Chinese bank; and, $23.3 million under a note payable to a Japanese bank due 2010.

ON Semiconductor's ability to service its long-term debt, to remain in compliance with the various covenants and restrictions contained in its credit agreements and to fund working capital, capital expenditures and business development efforts will depend on its ability to generate cash from operating activities which is subject to, among other things, its future operating performance as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may beyond its control.

If ON Semiconductor fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to ON Semiconductor. Although there can be no assurance, management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund ON Semiconductor's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2003. To the extent that results or events differ from ON Semiconductor's financial projections or business plans, the Company's liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Investments in companies that represent less than 20% of the related voting stock are accounted for on the cost basis as the Company does not exercise significant influence. All material intercompany accounts and transactions have been eliminated.

Reclassifications

Certain amounts have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates have been used by management in conjunction with the measurement of valuation allowances relating to receivables, inventories and deferred tax assets; reserves for customer incentives, restructuring charges and pension obligations; the fair values of financial instruments (including derivative financial instruments); and future cash flows associated with long-lived assets. Actual results could differ from these estimates.

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis), or market. The Company records provisions for slow moving inventories based upon a regular analysis of inventory on hand compared to historical and projected end user demand. Projected end user demand is generally based on sales during the prior twelve months.

These provisions can influence results from operations. For example, when demand for a given part falls, all or a portion of the related inventory is reserved, impacting cost of sales and gross profit. If demand recovers and the parts previously reserved are sold, a higher than normal margin will generally be recognized. General market conditions as well as the Company’s design activities can cause certain of its products to become obsolete.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated over estimated useful lives of 30-40 years for buildings and 3-20 years for machinery and equipment using accelerated and straight-line methods. Expenditures for maintenance and repairs are charged to operations in the year in which the expense is incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized.

The Company evaluates the recoverability of the carrying amount of its property, plant and equipment whenever events or changes in circumstances indicate that the related carrying amount of an asset may not be recoverable. Impairment is assessed when the undiscounted expected cash flows derived for an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in operating results. Judgment is used when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an impaired asset. The dynamic economic environment in which the Company operates and the resulting assumptions used to estimate future cash flows impact the outcome of these impairment tests.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of the Cherry acquisition (described in Note 6 “Acquisition”) over the estimated fair value of the net assets acquired and was being amortized on a straight line basis over its estimated useful life of ten years until January 1, 2002 when the Company adopted Statement of Financial Accounting Standards ("SFAS") 142, "Goodwill and Other Intangible Assets." The Company also acquired certain intangible assets in the Cherry acquisition that are being amortized on a straight line basis over estimated useful lives of five years.

Under SFAS 142, goodwill is evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. SFAS 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The Company performs its annual impairment analysis during the fourth quarter of each year.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the terms of the underlying agreements. Upon prepayment of debt, the related unamortized debt issuance costs are charged to operations. Amortization of debt issuance costs is included in interest expense while the unamortized balance is included in other assets.

Revenue Recognition

The Company generates revenue from sales of its semiconductor products to original equipment manufacturers, distributors and electronic manufacturing service providers. The Company recognizes revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the customer net of provisions for related sales returns and allowances.

Prior to January 1, 2001, the Company recognized revenue on distributor sales when title passed to the distributor. Provisions were also recorded at that time for estimated sales returns as well as for other related sales costs and allowances. Effective January 1, 2001, the Company changed its revenue recognition policy with respect to distributor sales so that the related revenues are now deferred until the distributor resells the product to the end user. This change eliminated the need to provide for estimated sales returns from distributors. Title to products sold to distributors typically passes at the time of shipment by the Company so the Company records accounts receivable for the amount of the transaction, reduces its inventory for the products shipped and defers the related margin in the consolidated balance sheet. The Company recognizes the related revenue and margin when the distributor sells the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

Research and Development Costs

Research and development costs are expensed as incurred.

Stock-Based Compensation

The Company accounts for employee stock options relating to the common stock of ON Semiconductor accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and provides the pro forma disclosures required by SFAS No. 123 "Accounting for Stock Based Compensation" ("SFAS No. 123"). The Company measures compensation expense relating to non-employee stock awards in accordance with SFAS No. 123.

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net income (loss) for the years ended December 31, 2002, 2001, and 2000 and the six months ended July 4, 2003 and June 28, 2002 would have been reduced (increased) to the pro forma amounts indicated below (in millions):

	Year Ended December 31,			Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
Net income (loss), as reported	$(144.9)	$(832.8)	$67.0	$ (108.1)	$ (84.5)
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	4.5	3.7	0.5	0.1	1.2
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(15.4)	(17.9)	(7.1)	(7.3)	(7.0)
Pro forma net income (loss)	$(155.8)	$(847.0)	$60.4	$ (115.3)	$ (90.3)

The fair value of each option grant has been estimated at the date of grant while the fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan has been estimated at the beginning of each of the respective offering periods, both using a Black-Scholes option-pricing model with the following weighted-average assumptions:

				Six Months Ended	
Employee Stock Options	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
Expected life (in years)	5	5	5	5	5
Risk-free interest rate	4.15%	4.82%	6.41%	3.03%	4.57%
Volatility	0.70	0.70	0.60	0.70	0.70

				Six Months Ended	
Employee Stock Purchase Plan	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
Expected life (in years)	0.25	0.25	0.33	0.25	0.25
Risk-free interest rate	1.71%	4.26%	6.20%	1.17%	1.76%
Volatility	0.70	0.70	0.60	0.70	0.70

The weighted-average estimated fair value of employee stock options granted during 2002, 2001 and 2000 was $1.83, $3.25 and $8.67 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during 2002, 2001 and 2000 was $0.60, $1.24 and $3.73, respectively.

The weighted-average estimated fair value of employee stock options granted during the first six months of 2003 and 2002 was $0.77 and $2.16 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during the first six months of 2003 and 2002 was $0.32 and $0.84 per share, respectively.

Income Taxes

Income taxes are accounted for using the asset and liability method and are determined on a separate return basis. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized.

In determining the amount of the valuation allowance, estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction are considered. If all or a portion of the remaining deferred tax assets will not be realized, the valuation allowance will be increased with a charge to income tax expense. Conversely, if the Company will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. In the fourth quarter of 2001, a valuation allowance was established for the majority of the Company’s deferred tax assets. Additionally, throughout 2002, no incremental deferred tax benefits were recognized. The Company’s ability to utilize its deferred tax assets and the continuing need for a related valuation allowance are monitored on an ongoing basis.

Foreign Currencies

Most of the Company’s foreign subsidiaries deal primarily in U.S. dollars and as a result, utilize the dollar as their functional currency. For the translation of financial statements of these subsidiaries, assets and liabilities that are receivable or payable in cash are translated at current exchange rates while inventories and other non-monetary assets are translated at historical rates. Gains and losses resulting from the translation of such financial statements are included in the operating results, as are gains and losses incurred on foreign currency transactions. The Company’s remaining foreign subsidiaries utilize the local currency as their functional currency. The assets and liabilities of these subsidiaries are translated at current exchange rates while revenues and expenses are translated at the average rates in effect for the period. The related translation gains and losses are included in accumulated other comprehensive income (loss) within member’s equity (deficit).

Defined Benefit Plans

The Company maintains pension plans covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increase for plan employees. All of these assumptions are based upon management’s judgement, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact the future expense recognition and cash funding requirements of our pension plans.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Under this standard, asset retirement obligations will be recognized when incurred at their estimated fair value. In addition, the cost of the asset retirement obligation will be capitalized as a part of the assets' carrying valued and depreciated over the assets' remaining useful life. The Company will be required to adopt SFAS No. 143 effective January 1, 2003. The Company does not expect the implementation of SFAS No. 143 to have a material effect on its results of operations.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective January 1, 2002. SFAS No. 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company's adoption of SFAS No. 144 did not impact its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment to FAS 123." SFAS No. 148 provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in annual and interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for the Company's fiscal year 2002. The interim disclosure requirements are effective for the first quarter of fiscal year 2003 and are included in Note 3, "Significant Accounting Policies." The Company has no plans to change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately and such disclosures have been included in Note 7 "Balance Sheet Information". The Company's adoption of FIN No. 45 did not impact its financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (“FIN 46”), “ Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51”. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created to acquired prior to February 1, 2003, the provisions of FIN 46 must be applied to the first interim or annual period beginning after June 15, 2003. The Company’s adoption of FIN 46 did not impact its financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity”. SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer that must be classified as liabilities. Such freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase the issuer’s equity shares by transferring assets, and certain obligations to issue a variable number of shares. SFAS No. 150 is effective immediately for all financial instruments entered into or modified after May 31, 2003. For all other instruments, SFAS No. 150 is effective at the beginning of the third quarter of 2003. The Company does not currently have any financial instruments that fall within the scope of SFAS No. 150.

Note 4: Accounting Changes

Defined Benefit Pension Obligations

The Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. The Company will no longer defer actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company’s annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred.

The impact of this change for periods prior to January 1, 2003 is a charge of $21.5 million, both before and after income taxes, and has been reflected as the cumulative effect of a change in accounting principle in the Company’s consolidated statement of operations and comprehensive loss for the six months ended July 4, 2003. The effect of the change on the six months ended July 4, 2003 was to decrease the loss before cumulative effect of accounting change by $3.2 million, both before and after income taxes, and to increase the net loss by $18.3 million, both before and after income taxes. Absent the accounting change, the $21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

The pro forma effects of the accounting change for the years ended December 31, 2002, 2001 and 2000, respectively are as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
As reported:			
Net income (loss) before cumulative effect of accounting change	$(144.9)	$(716.4)	$67.0
Net income (loss)	$(144.9)	$(832.8)	$67.0
Pro forma amounts reflecting the accounting change applied retroactively:			
Net income (loss) before cumulative effect of accounting change	$(149.3)	$(726.6)	$60.4
Net income (loss)	$(149.3)	$(843.0)	$60.4

The effect of the accounting change on the six months ended June 28, 2002 is as follows (in millions):

	Six Months Ended June 28, 2002 (Pro forma) (unaudited)
Reported loss before cumulative effect of accounting change	$ (86.6)
Add back: Amortization of actuarial losses	2.5
Loss before cumulative effect of accounting change	(84.1)
Cumulative effect of accounting change	—
Net loss	$ (84.1)

Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets". The provisions of SFAS 142 prohibit the amortization of goodwill and indefinite-lived intangible assets and require that such assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), require that reporting units be identified for the purpose of assessing potential future impairments of goodwill and remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

The Company's goodwill at January 1, 2002 totaled $77.3 million and relates to the Cherry acquisition described in Note 6. As a result of the adoption of SFAS No. 142, the Company discontinued amortization of the Cherry goodwill at the beginning of 2002. During the first quarter of 2002, the Company identified its various reporting units, which correspond with its four product lines, and allocated its assets and liabilities to such reporting units. The goodwill relating to the Cherry acquisition was specifically identified with and included in the Company's Power Management and Standard Analog reporting unit. During the second quarter of 2002, the Company completed the first step of its transitional goodwill impairment test and determined that the estimated fair value of the Power Management and Standard Analog reporting unit as of January 1, 2002 exceeded the reporting unit's carrying amount by a substantial amount. As a result, an impairment of the Cherry goodwill as of that date was not indicated and completion of the second step test was not required. The Company updated its goodwill impairment analysis during the fourth quarter of 2002 and determined that a related impairment did not exist.

The following table, with comparable actual amounts, sets forth the pro forma effects on net income (loss) assuming that the Company had adopted the provisions of SFAS No. 142 at the date of the Cherry acquisition in April 2000:

	Year Ended December 31,				
	As Reported 2002	As Reported 2001	Pro Forma 2001	As Reported 2000	Pro Forma 2000
Reported net income (loss) before cumulative effect of accounting change	$ (144.9)	$ (716.4)	$ (716.4)	$ 67.0	$ 67.0
Add Back: Goodwill amortization, net of tax			10.7		7.7
Pro forma net income (loss) before cumulative effect of accounting change			$ (705.7)		$ 74.7
Reported net income (loss)	$ (144.9)	$ (832.8)	$ (832.8)	$ 67.0	$ 67.0
Add Back: Goodwill amortization, net of tax			10.7		7.7
Pro forma net income (loss)			$ (822.1)		$ 74.7

Revenue Recognition

Sales are made to distributors under agreements that allow certain rights of return and price protection on products that are not resold by such distributors. Prior to January 1, 2001, the Company recognized revenue on distributor sales when title passed to the distributor. Provisions were also recorded at that time for estimated sales returns from our distributors on these unsold products. Effective January 1, 2001, the Company changed its revenue recognition method on sales to distributors so that such revenues are recognized at the time the distributor sells the Company's products to the end customer. Title to products sold to distributors typically passes at the time of shipment by the Company so the Company records accounts receivable for the amount of the transaction, reduces its inventory for the products shipped and defers the related margin in the consolidated balance sheet. The Company recognizes the related revenue and margin when the distributor sells the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

Management believes that this accounting change was to a preferable method because it better aligns reported results with, focuses the Company on, and allows investors to better understand end user demand for the products the Company sells through distribution.

Additionally, the timing of revenue recognition is no longer influenced by the distributor's stocking decisions. This revenue recognition policy and manner of presentation is commonly used in the semiconductor industry.

The impact of the accounting change for periods prior to 2001 was a charge of $155.2 million ($116.4 million, net of income taxes) and is reflected as the cumulative effect of change in accounting principle in the Company's consolidated statement of operations and comprehensive loss in 2001. The accounting change resulted in an increase in revenues of $116.6 million and a reduction in net loss of $53.1 million for the year ended December 31, 2001.

The estimated pro forma effects of the accounting change for the year ended December 31, 2000 are as follows (in millions):

	Year Ended December 31, 2000
As reported:	
Revenues	$ 2,070.2
Net income	67.0
Pro forma effects reflecting the accounting change applied retroactively:	
Revenues	$ 1,955.0
Net income	26.7

Derivatives Instruments and Hedging Activities

The Company adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, which establishes standards for the accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and hedging activities effective January 1, 2001.

Upon adoption, the Company recorded an after-tax charge of approximately $3.4 million to accumulated other comprehensive income (loss). This charge consisted of an approximate $2.1 million adjustment to record the Company’s interest rate swaps in the consolidated balance sheet at their estimated fair values as well as the write-off of an approximate $3.5 million deferred charge relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under the Company’s senior bank facilities, both before income taxes of approximately $2.2 million.

The Company uses forward foreign currency contracts to reduce its overall exposure to the effects of foreign currency fluctuations on its results of operations and cash flows. The fair value of these derivative instruments are recorded as assets or liabilities with gains and losses offsetting the losses and gains on the underlying assets or liabilities. The adoption of SFAS 133 did not impact the Company’s accounting and reporting for these derivative instruments.

Note 5: Restructuring, Asset Impairments and Other

The activity related to the Company’s restructuring, asset impairments and other is as follows (in millions):

	Reserve Balance at 12/31/2000	2001 Charges	2001 Usage	Reserve Balance at 12/31/2001	2002 Charges	2002 Usage	2002 Adjustments	Reserve Balance at 12/31/2002
	$ 0.7	$ —	$ (0.7)	$ —	$ —	$ —	$ —	$ —
December 2002								
Cash employee separation charges	—	—	—	—	10.1	(0.2)	—	9.9
Cash exit costs	—	—	—	—	1.8	—	—	1.8
December 2002 Restructuring reserve balance	—			—				11.7
June 2002								
Cash employee separation charges	—	—	—	—	2.9	(2.5)	—	0.4
Cash exit costs	—	—	—	—	2.8	(1.3)	—	1.5
Non-cash fixed asset write-offs	—	—	—	—	8.4	(8.4)	—	—
Non-cash stock compensation charges	—	—	—	—	1.0	(1.0)	—	—
June 2002 Restructuring reserve balance	—			—				1.9
March 2002								
Cash employee separation charges	—	—	—	—	7.0	(4.3)	0.3	3.0
Non-cash stock compensation charges	—	—	—	—	0.2	(0.2)	—	—
March 2002 Restructuring reserve balance	—			—				3.0
December 2001								
Cash employee separation charges	—	4.0	(1.8)	2.2	—	(2.1)	—	0.1
Non-cash fixed asset write-offs	—	11.1	(11.1)	—	—	—	—	—
Non-cash stock compensation and pension charges	—	1.5	(1.5)	—	—	—	—	—
December 2001 Restructuring reserve balance	—			2.2				0.1
June 2001								
Cash employee separation charges	—	36.1	(29.3)	6.8	—	(5.7)	0.6	1.7
Cash exit costs	—	10.0	—	10.0	—	(8.1)	(0.8)	1.1
Non-cash fixed asset write-offs	—	42.2	(42.2)	—	—	—	—	—
Non-cash stock compensation and pension charges	—	7.2	(7.2)	—	—	—	—	—
June 2001 Restructuring reserve balance	—			16.8				2.8
March 2001								
Cash employee separation charges	—	31.3	(30.5)	0.8	—	(0.7)	(0.1)	—
Non-cash fixed asset write-offs	—	2.9	(2.9)	—	—	—	—	—
March 2001 Restructuring reserve balance	—			0.8				—
	$ 0.7	$ 146.3	$ (127.2)	$ 19.8	$ 34.2	$ (34.5)	$ (0.0)	$ 19.5

The following table reconciles the restructuring, asset impairments and other activity in the tables above to the "Restructuring, asset impairments and other" caption on the Statement of Operations for the years ended December 31, 2002 and 2001, respectively (in millions):

	Year Ended December 31, 2002
2002 restructuring, asset impairments and other	$ 34.2
Plus: Additional charges related to Guadalajara and France	1.9
Less: Reserves released during the period	(1.9)
Plus: Other charges related to the termination of executive officers (December 2002)	4.9
Less: Motorola gain	(12.4)
Restructuring and other	$ 26.7

	Year Ended December 31, 2001
2001 restructuring, asset impairments and other	$ 146.3
Plus: Other charges related to the termination of an executive officer (March 2001)	3.8
Restructuring, asset impairments and other	$ 150.1

The following table reconciles the restructuring, asset impairments and other activity to the "Restructuring, asset impairments and other" caption on the statement of operations for the six months ended July 4, 2003, and June 28, 2002 (in millions):

	Six Months Ended July 4, 2003
2003 restructuring, asset impairments and other	$ 33.6
Plus: Additional charges related to a supply contract (June 2002)	1.0
Restructuring, asset impairments and other	$ 34.6

	Six Months Ended June 28, 2002
2002 restructuring, asset impairments and other	$ 22.3
Plus: Additional charges related to Guadalajara	1.6
Less: Reserves released during the period	(1.3)
Less: Motorola gain	(12.4)
Restructuring, asset impairments and other	$ 10.2

June 2003 Restructuring, Asset Impairments and Other

In June 2003, the Company recorded charges totaling $13.3 million associated with its worldwide restructuring programs. The charges include $0.4 million to cover employee separation costs relating to the termination of approximately 16 employees, $1.4 million of lease and contract termination exit costs, $10.5 million of asset impairments and an additional $1.0 million associated with a supply contract that was terminated as part of the June 2002 restructuring program.

The employee separation costs reflected further reductions in general and administrative staffing levels primarily in the United States. As of the end of the second quarter of 2003, all impacted employees had been terminated, and the Company currently expects that the remaining employee separation cost reserve will be paid out by December 2003.

The lease and contract termination exit costs relate to the exit of certain sales and administrative offices in Bermuda and Europe and the termination of other purchase and supply agreements.

The $10.5 million of asset impairments included $3.3 million associated with an assembly and test packaging production line in Malaysia which was written down to estimated fair value based on its future net discounted cash flows. Additionally, the Company identified certain buildings, machinery, software and equipment that would no longer be used internally due to the continued consolidation of manufacturing and general and administrative functions primarily in the United States and recorded a charge of $7.2 million to write-down the remaining carrying value of these assets to their net realizable value.

In the second quarter of 2003, the Company also recorded non-cash impairment charges totaling $21.3 million including $20.8 million relating to the write-off of the developed technology intangible asset associated with the April 2000 purchase of Cherry Semiconductor Corporation and a $0.5 million write-off of a cost basis investment. Sustained price declines in certain product lines triggered an impairment analysis of the carrying value of the developed technology and resulted in the Company recording an impairment charge of $20.8 million. The Company measured the amount of the impairment charge by comparing the carrying value of the developed technology to its estimated fair value. The Company estimated future net cash flows associated with the developed technology using price, volume and cost assumptions that management considered to be reasonable in the circumstances. The Company will no longer incur amortization expense of approximately $3.0 million per quarter related to this intangible asset. As a result of the impairment of the developed technology, the Company evaluated the recoverability of the related goodwill that arose in connection with the acquisition of Cherry Semiconductor Corporation. The Company determined that the estimated fair value of the reporting unit containing the goodwill exceeded its related carrying amount. Accordingly, the goodwill was not considered to be impaired.

December 2002 Restructuring

In December 2002, the Company recorded a $11.6 million (net of a $0.6 adjustment) restructuring charge. The charge included $10.1 million to cover employee separation costs relating the termination of approximately 300 employees and approximately $1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets. The headcount reductions began in the first quarter of 2003 and are expected to be completed by December 2003 and will impact both manufacturing and non-manufacturing personnel mainly in the United States. The charge also included an additional $0.3 million reserve related to headcount reduction in Toulouse, France that was part of the March 2002 restructuring program. The $0.6 adjustment related to release of previous reserves associated with the June 2001 restructuring programs due to the Company's analysis of estimated costs to complete those programs. As of July 4, 2003 the remaining liability relating to this restructuring was $5.4 million.

In December 2002, the Company also recorded a $4.9 million charge to cover the costs associated with the separation of two of its executive officers. In connection with the separation, the Company reserved $2.0 million related to the cash portion of the related separation agreements. In addition, the Company agreed to modify the vesting and exercise period for a portion of the executives' stock options. This modification resulted in a non-cash stock compensation charge of $2.9 million with an offsetting credit to additional paid-in capital.

June 2002 Restructuring, Asset Impairments and Other

In June 2002, the Company recorded charges totaling $16.7 million for costs associated with its worldwide restructuring programs. The charges included $3.9 million to cover employee separation costs associated with the termination of 79 U.S. employees, $2.8 million for exit costs consisting primarily of manufacturing equipment and supply contract termination charges, and $8.4 million for equipment write-offs that were charged directly against the related assets. An additional $1.0 million in exit costs and $0.6 million in employee separation costs were accrued relating to the closure of the Company's Guadalajara, Mexico manufacturing facility that was part of the June 2001 restructuring described below.

The employee separation costs reflected further reductions in general and administrative staffing levels and included $1.0 million of non-cash stock compensation charges associated with the modification of stock options for certain terminated employees. As of July 4, 2003, all impacted employees had been terminated and employee separation costs had been paid.

As a result of continuing economic conditions, the Company determined that certain manufacturing equipment purchase and supply agreements were no longer economical to complete and accrued estimate termination charges of $2.8 million during the second quarter of 2002. As of July 4, 2003, the Company is in discussions to settle its remaining obligations.

During the second quarter of 2002, the Company identified certain manufacturing equipment that would no longer be used internally and recorded a charge of $7.0 million to write-down the remaining carrying value to its estimated net realizable value. Additionally, the Company determined that it would not invest the capital required to complete an equipment project and recorded a charge of $1.4 million to write-off the carrying value of the related project.

During the second quarter of 2002, the Company reached a settlement of various contractual issues with Motorola in exchange for a cash payment from Motorola of $10.6 million which resulted in a related gain of $12.4 million. The Company also recorded a $1.2 million reversal of amounts previously provided in connection with its June 2001 restructuring program as a result of favorable negotiated contract termination costs.

March 2002 Restructuring

In March 2002, the Company recorded a $7.1 million (net of a $0.1 million adjustment to the March 2001 restructuring program) charge to cover employee separation costs relating to the termination of approximately 72 employees. Approximately $5.0 million of this charge is attributable to employee terminations resulting from the Company's decision to relocate its European administrative functions from Toulouse, France to Roznov, Czech Republic and Piestany, Slovakia. The relocation of these functions is currently expected to be completed by June 30, 2003. The remaining $2.2 million relates to reductions in selling, general and administrative functions primarily in the U.S. The March 2002 charge also included $0.2 million of non-cash employee stock compensation expense associated with the modification of stock options for certain terminated employees. The Company recorded an additional $0.3 million in employee separation costs relating to the relocation of the administrative functions in Toulouse, France during the fourth quarter of 2002 as a result of its reevaluation of remaining costs to be incurred. The remaining restructuring reserve of $1.0 million at July 4, 2003 relates to the unpaid separation costs associated with terminated employees and the remaining 15 employees to be terminated under the program. The Company currently expects that the remaining terminations will be completed by December, 2003.

December 2001 Restructuring and Asset Impairments

In December 2001, the Company recorded charges totaling $16.6 million for costs associated with its worldwide restructuring programs. The charges included $5.5 million to cover employee separation costs associated with the terminations of 50 employees as well as $11.1 million for property and equipment write-offs that were charged directly against the related assets.

The employee separation costs reflected reductions in selling, general and administrative staffing levels in the U.S., United Kingdom, Germany, France and Singapore and included $0.2 million of non-cash charges associated with the modification of stock options for certain terminated employees as well as $1.3 million for additional pension charges relating to the terminated employees. (The additional pension charge is reflected in the Company’s accrued pension liability in the consolidated balance sheet.) As of July 4, 2003, all impacted employees had been terminated and the Company currently expects that the remaining reserve of $0.1 million will be made by September 2003.

The $11.1 million charge related the write-off of certain property and equipment located in Phoenix, Arizona that would no longer be utilized as a result of the Company’s restructuring activities.

June 2001 Restructuring, Asset Impairments and Other

In June 2001, the Company recorded charges totaling $95.5 million for costs associated with its worldwide restructuring programs. These programs were in response to rapidly changing economic circumstances requiring the Company to rationalize its manufacturing and distribution operations to meet declining customer demand. The programs included the phasing out of manufacturing operations at the Company’s Guadalajara, Mexico facility by June 2002, transferring certain manufacturing activities performed at the Company’s Aizu, Japan and Seremban, Malaysia facilities to other Company-owned facilities or to third party contractors by June 2002 and December 2001, respectively, the shutdown of the Hong Kong Distribution Center and transfer of related functions to its Singapore Distribution Center. The charge included $36.1 million to cover employee separation costs associated with the termination of approximately 3,000 employees, $1.1 million of non-cash charges associated with the modification of stock options for certain terminated employees and $6.1 million for additional pension charges related to the terminated employees. (The additional pension charge is reflected in the Company’s accrued pension liability in the consolidated balance sheet.) As of July 4, 2003, the Company reversed the remaining $1.7 million employee separation charges reserve as all employees have been terminated under the program and all severance payments have been made.

The planned discontinuation of manufacturing activities triggered an impairment analysis to the carrying value of the related assets and resulted in the Company recording asset impairment charges totaling $42.2 million. This charge included $31.6 million related to the Guadalajara manufacturing facility, $4.2 million related to the Aizu, Japan 4-inch wafer fabrication line and $2.2 million related to the Seremban assembly and test facility. The Company measured the amount of each asset impairment by comparing the carrying value of the respective assets to the related estimated fair value. The Company estimated future net cash flows for the period of continuing manufacturing activities (June 2002 for Guadalajara and Aizu, December 31, 2001 for Seremban) for each group of assets using price, volume, cost, capital and salvage value assumptions that management considered to be reasonable in the circumstances. The impairment charges were recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value. The related assets have been sold to third parties at amounts that approximated their estimated fair values, were transferred to other manufacturing facilities at their previously existing carrying values or are currently held for sale. The only remaining assets to be disposed of under this restructuring program are the land and building at the Guadalajara manufacturing facility. The Company is currently evaluating offers for these assets and, based on these offers, expects that the carrying value will be fully realized. The charge also included $4.2 million for the write-off of assets that will no longer be used by the Company as a result of this restructuring program.

The June 2001 charge also included $10.0 million to cover certain exit costs relating facility closure and contract terminations. This charge included $2.8 for expected facility clean up activities, $1.0 million for equipment disposal fees, $2.0 million for equipment purchase cancellations and $4.2 million for other contract cancellations. As discussed previously, the Company recorded an additional $1.0 million in exit costs and $0.6 million in employee separation costs relating to the Guadalajara manufacturing facility during the second quarter of 2002 as a result of its reevaluation of remaining costs to be incurred with respect to the closure of that facility. In 2003 the Company recorded a charge of $1.7 million related to additional costs associated with the closure of the Guadalajara, Mexico facility. This reserve is expected to be utilized within three months after the sale of the Guadalajara facility. As of July 4, 2003 the remaining liability relating to this restructuring program was $1.3 million.

March 2001 Restructuring, Asset Impairments and Other

In March 2001, the Company recorded charges totaling $34.2 million for costs associated with its worldwide restructuring programs. The charges included $31.3 million to cover employee separation costs associated with the termination of 1,100 employees as well as $2.9 million for equipment write-offs that were charged directly against the related assets.

The employee separation costs reflected further reductions in manufacturing, selling, general and administrative staffing levels in the U.S., Mexico, the Philippines and Malaysia as well as non-cash charges associated with the modification of stock options for certain terminated employees. All impacted employees had been terminated and the Company released the remaining $0.1 million reserve to income during the second quarter of 2002.

The March 2001 charge included property and equipment write downs of $2.9 million relating to assets at the previously mentioned locations that could not be utilized or transferred to other locations.

Also in March 2001, the Company recorded a $3.8 million charge to cover costs associated with the separation of one of the Company’s executive officers. In connection with the separation, the Company paid the former executive officer $1.9 million. In addition, the Company agreed to accelerate the vesting of the remaining stock options to purchase common stock and to allow such options to remain exercisable for the remainder of their ten-year term. The Company recorded a non-cash charge of $1.9 million related to modification of these options with an offsetting credit to additional paid-in capital.

2000 Restructuring

During 2000, the Company recorded a $5.6 million charge to cover costs associated with a restructuring program at its manufacturing facility in Guadalajara, Mexico. The charge included $3.2 million to cover employee separation costs associated with the termination of approximately 500 employees and $2.4 million for asset impairments that were charged directly against the related assets. In September 2000, the Company completed its evaluation of the costs to be incurred and released $0.8 million of the remaining reserve for employee separation costs to income. As of December 31, 2001, there was no remaining liability relating to the 2000 restructuring program.

Note 6: Acquisition

On April 3, 2000, the Company acquired all of the outstanding capital stock of Cherry Semiconductor Corporation ("Cherry") for approximately $253.2 million in cash (including acquisition related costs), which was financed with cash on hand and borrowings of $220.0 million under the Company's senior bank facilities. Cherry, which was renamed Semiconductor Components Industries of Rhode Island, Inc., designs and manufactures analog and mixed signal integrated circuits for the power management and automotive markets, and had revenues for its fiscal year ended February 29, 2000 of $129.1 million.

The Cherry acquisition was accounted for using the purchase method of accounting and, as a result, the purchase price and related costs were allocated to the estimated fair value of assets acquired and liabilities assumed at the time of the acquisition based on management estimates as follows (in millions):

Fair value of tangible net assets	$ 71.3
Developed technology	59.3
In-process research and development	26.9
Assembled workforce	10.0
Excess of purchase price over estimated fair value of net assets acquired (goodwill)	85.7
	$253.2

Developed technology was being amortized on a straight-line basis over an estimated useful life of five years prior to being written off in the second quarter of 2003 as described in Note 5, "Restructuring, Asset Impairments and Other." Goodwill was being amortized on a straight-line basis over an estimated useful life of ten years; however, as mentioned previously, such amortization was discontinued January 1, 2002 upon the adoption of SFAS 142. Additionally, assembled workforce was being amortized over an estimated useful life of five years, however assembled workforce does not meet the requirements for an intangible asset apart from goodwill. Accordingly, upon adoption of SFAS 142, the Company reclassified the unamortized balance of assembled workforce to goodwill and the related amortization was discontinued.

The fair value of acquired in-process research and development was determined using the income approach, which discounts expected future cash flows to present value. Significant assumptions that had to be made in using this approach included revenue and operating margin projections and determination of the applicable discount rate. The fair value of acquired in-process research and development was based on sales forecasts and cost assumptions projected to be achievable by Cherry on a stand-alone basis. Operating margins were based on cost of goods sold and selling, general and administrative expenses as a percentage of revenues. All projected revenue and cost information was based on historical results and trends and did not include any synergies or cost savings that may result from the acquisition. The rate used to discount future projected cash flows resulting from the acquired in-process research and development was 20%, which was derived from a weighted average cost of capital analysis increased to reflect additional risks inherent in the development life cycle.

At the date of acquisition, in-process research and development consisted of sixty-five projects that had not yet reached technological feasibility and for which no alternative future uses had been identified. Accordingly, the estimated fair value of these projects was expensed as of the acquisition date. Such projects were approximately 70% to 80% complete at the date of the acquisition. The estimated cost to complete these projects at that date was approximately $4.1 million. Of the sixty-five projects in process at the date of acquisition, the Company completed thirty-one projects, abandoned twenty-nine projects and are in the process of completing the remaining five projects, which have an estimated completion cost of $0.5 million. Subsequent to the acquisition date, the Company experienced an industry downturn that required it to scale back research and development activities. Due to the decline in product demand subsequent to the acquisition, 2002 revenues associated with the completed projects were approximately $12.5 million, or 30% of the amount originally forecasted for all acquired in-process research and development projects at the date of acquisition.

Note 7: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31,		July 4,
	2002	2001	2003
			(unaudited)
Receivables, net:			
Accounts receivable	$ 113.5	$ 134.2	$ 128.0
Less: Allowance for doubtful accounts	(1.8)	(1.9)	(2.2)
	$ 111.7	$ 132.3	$ 125.8
Inventories, net:			
Raw materials	$ 12.3	$ 12.1	$ 18.2
Work in process	104.6	138.4	115.4
Finished goods	81.5	79.9	82.0
Total inventories	198.4	230.4	215.6
Less: Inventory reserves	(43.4)	(50.2)	(40.9)
	$ 155.0	$ 180.2	$ 174.7
Property, plant and equipment, net:			
Land	$ 11.7	$ 11.4	$ 11.7
Buildings	293.8	379.9	298.5
Machinery and equipment	827.5	959.4	803.4
Total property, plant and equipment	1,133.0	1,350.7	1,113.6
Less: Accumulated depreciation	(743.5)	(867.9)	(764.2)
	$ 389.5	$ 482.8	$ 349.4
Goodwill, net:			
Goodwill	$ 95.7	$ 95.7	$ 95.7
Less: Accumulated amortization	(18.4)	(18.4)	(18.4)
	$ 77.3	$ 77.3	$ 77.3
Intangible asset, net:			
Developed technology	$ 59.3	$ 59.3	$ 59.3
Less: Accumulated amortization	(32.6)	(20.7)	(59.3)
	$ 26.7	$ 38.6	$ —
Other assets:			
Debt issuance costs	$ 33.7	$ 35.2	$ 37.1
Other	5.0	6.5	2.7
	$ 38.7	$ 41.7	$ 39.8
Accrued expenses:			
Accrued payroll	$ 27.5	$ 28.2	$ 29.1
Sales related reserves	14.1	15.0	10.5
Restructuring reserves	19.5	19.8	11.1
Other	35.9	38.5	30.2
	$ 97.0	$ 101.5	$ 80.9
Other long-term liabilities:			
Accrued retirement benefits	$ 33.7	$ 25.0	$ 31.8
Cash flow hedge liability	8.2	12.5	0.7
Other	1.0	10.8	7.5
	$ 42.9	$ 48.3	$ 40.0
Other comprehensive loss:			
Foreign currency translation adjustments	$ (2.0)	$ (4.3)	$ (1.7)
Additional minimum pension liability	(19.6)	(13.8)	—
Net unrealized losses and adjustments related to cash flow hedges	(12.1)	(14.7)	(9.0)
Unrealized losses on deferred compensation plan investments	(0.6)	—	(0.6)
	$ (34.3)	$ (32.8)	$ (11.3)

Depreciation expense totaled $105.1 million, $122.8 million and $126.3 million for 2002, 2001 and 2000, respectively. Amortization expense related to the developed technology totaled $11.9, $11.6, and $9.1 million in 2002, 2001 and 2000, respectively.

The activity related to the Company's allowance for doubtful accounts, inventory reserves, allowance for deferred tax assets and warranty reserves for 2000, 2001 and 2002 follows:

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions/ Writeoffs	Balance at End of Period
Allowance for doubtful accounts					
Year ended December 31, 2000	$ 2.0	$ 0.8	$ 1.4(1)	$ 1.7	$ 2.5
Year ended December 31, 2001	$ 2.5	$ 0.5	$ —	$ 1.1	$ 1.9
Year ended December 31, 2002	$ 1.9	$ 0.2	$ —	$ 0.3	$ 1.8
Inventory reserves					
Year ended December 31, 2000	$ 28.2	$ 44.1	$ —	$ 49.8	$ 22.5
Year ended December 31, 2001	$ 22.5	$ 50.9	$ —	$ 23.2	$ 50.2
Year ended December 31, 2002	$ 50.2	$ 12.1	$ —	$ 18.9	$ 43.4
Allowance for deferred tax assets					
Year ended December 31, 2000	$ —	$ —	$ —	$ —	$ —
Year ended December 31, 2001	$ —	$ 366.8	$ 83.8(2)	$ —	$ 450.6
Year ended December 31, 2002	$ 450.6	$ 1.0	$ 86.3(3)	$ —	$ 537.9
Warranty reserves					
Year ended December 31, 2000	$ 2.1	$ 2.4	$ —	$ 1.0	$ 3.5
Year ended December 31, 2001	$ 3.5	$ 0.1	$ —	$ 0.6	$ 3.0
Year ended December 31, 2002	$ 3.0	$ 0.1	$ —	$ 0.4	$ 2.7
Six months ended July 4, 2003 (unaudited)	$ 2.7	$ —	$ —	$ 0.3	$ 2.4

(1) Represents allowance recorded in connection with the acquisition of Cherry Semiconductor.
(2) Represents the valuation allowance related to the 2001 portion of the net operating loss that was not recognized during the year.
(3) Represents the valuation allowance related to the 2002 net operating loss that was not recognized during the year.

Note 8: Long-Term Debt

Long-term debt consists of the following (dollars in millions):

		December 31, 2002		December 31, 2001		July 4, 2003	
	Amount of Facility	Interest Rate	Balance	Interest Rate	Balance	Interest Rate	Balance
Senior Bank Facilities:							
Tranche A	$ 200.0	6.4375%	$ 6.6	8.4375%	$ 17.0	6.70%	$ 4.8
Tranche B	325.0	6.4375%	209.9	8.4375%	312.5	6.70%	153.1
Tranche C	350.0	6.4375%	226.0	8.4375%	336.5	6.70%	164.9
Tranche D	200.0	6.4375%	134.1	8.4375%	197.7	6.70%	97.9
Tranche R	62.5	—	—	—	—	6.70%	62.5
Revolver	150.0	6.4375%	125.0	8.4375%	125.0	6.70%	37.5
			701.6		988.7		520.7
First-Lien Senior Secured Notes due 2010, 12% interest payable semi-annually, net of debt discount of $8.8			—		—		191.2
Second-Lien Senior Secured Notes due 2008, 13% interest effective February 2003 payable semi-annually, net of debt discount of $8.6 and $8.0			291.4		—		292.0
12% Senior Subordinated Notes due 2009, interest payable semi-annually			260.0		260.0		260.0
10% Junior Subordinated Note to Motorola due 2011, interest compounded semi-annually, payable at maturity			126.9		115.2		133.4
2.25% Note payable to Japanese bank due 2010			23.3		21.9		23.4
Capital lease obligation			—		1.1		0.9
			1,403.2		1,386.9		1,421.6
Less: Current maturities			(9.3)		(12.4)		(4.9)
			$ 1,393.9		$ 1,374.5		$ 1,416.7

Senior Bank Facilities

Borrowings under the senior bank facilities, which bear interest at rates selected by the Company based on either LIBOR or an alternative base rate, as defined, plus an interest rate spread, amortize within three to five years. As of December 31, 2002, the senior bank facilities contained a $150.0 million revolving line of credit. Borrowings of $125.0 million and letters of credit totaling $17.1 million were outstanding against the line of credit at December 31, 2002 leaving $7.9 million of availability at that date. As discussed below, $62.5 million of borrowings outstanding under the revolving line of credit were converted to a new Tranche R term loan in February 2003 pursuant to amendments to the senior bank facilities made in connection with the issuance of the

Company's 12% first-lien senior secured notes due 2010 described below (the "First-Lien Notes".) Additionally, the Company used $180.9 million of the net cash proceeds from the issuance of the First-Lien Notes to prepay a portion of the senior bank facilities, including $25.0 million of which proceeds were used to repay borrowings then outstanding under the revolving line of credit and permanently reduce the commitments thereunder by such amount. As described in Note 12, the Company hedges a portion of the interest rate risk associated with the senior bank facilities.

At June 29, 2001, the Company was not in compliance with the interest expense coverage and leverage ratio requirements under its senior bank facilities. On August 13, 2001, the Company received a waiver in respect to such non-compliance at June 29, 2001 and in respect of any future non-compliance with such covenants through December 31, 2002. In connection with such waiver, the Company amended its senior bank facilities to, among other things, reduce interest expense coverage and leverage ratio requirements through December 31, 2005, add minimum cash and EBITDA level covenants through December 31, 2002, require the Company to obtain $100 million through an equity investment from TPG, increase the required interest rate spreads applicable to outstanding borrowings ("supplemental interest"), and, to revise certain mandatory prepayment provisions contained in the original agreement.

In connection with the issuance of $300 million principal amount of 12% second-lien senior secured notes due 2008 (the "Second-Lien Notes") described below, the Company amended its senior bank facilities on April 17, 2002 to, among other things, permit the issuance of the Second-Lien Notes, eliminate interest expense coverage and leverage ratio requirements through December 31, 2003 and to reduce the minimum interest expense coverage ratio requirement and increase the maximum leverage ratio requirements for the period from January 1, 2004 through June 30, 2006, extend the minimum cash and EBITDA level covenants through December 31, 2003, permit the redemption of up to 35% of the Second-Lien Notes with net proceeds of any equity offerings on or prior to May 15, 2005, allow certain asset sales and to permit borrowings of up to $100.0 million by or for the benefit of the Company's Leshan joint venture so long as the related proceeds are used to prepay loans under the senior bank facilities. The Company was in compliance with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2002.

In connection with the issuance of the First-Lien Notes described below, the Company amended its senior bank facilities effective as of February 14, 2003 to, among other things, permit the issuance of the First-Lien Notes, eliminate the interest expense and leverage coverage ratio requirements, reduce the minimum EBITDA level covenant (as defined) to $140.0 million for any four consecutive fiscal quarters until the final maturity of the senior bank facilities, reduce permitted annual capital expenditures to $100.0 million (subject to increases in certain circumstances), permit the redemption of up to 35% of the First-Lien Notes with net proceeds of any equity offerings on or prior to March 15, 2006 and to convert $62.5 million of the amounts outstanding under the revolving credit facility to a new Tranche R term loan. Although there can be no assurances, the Company believes that it will be able to comply with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2003.

Second-Lien Notes

On May 6, 2002, ON Semiconductor and SCI LLC, (collectively, the "Issuers") issued $300.0 million principal amount of Second-Lien Notes in a private offering that was exempt from the registration requirements of the federal securities laws. The Second-Lien Notes, which are callable after four years, were issued at 96.902% of par value and generated net proceeds of $278.6 million after such discount and the payment of issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company's senior bank facilities. Because the amount outstanding under the senior bank facilities was reduced below $750.0 million, the supplemental interest charges were reduced from 3.0% to 1.0%. The Company has the option to terminate the supplemental interest charges by paying the entire accrued balance of supplemental interest charges on March 31, 2003. Alternatively, the Company can elect to pay 50% of the existing accrued balance at March 31, 2003 and continue accruing supplemental interest charges through June 30, 2003, at which time all remaining supplemental interest is due. Approximately $25.7 million of supplemental interest charges had been accrued as of December 31, 2002. In connection with this prepayment, the Company wrote off $6.5 million of debt issuance costs which is reflected as an extraordinary loss in the Company's consolidated statement of operations for the year ended December 31, 2002. The Second-Lien Notes accrued interest at the rate of 12% until February 6, 2003, when the related annual interest increased to 13%. The increased interest rate will remain in effect unless on or prior to August 6, 2003 the Company issues $100.0 million of its common stock or certain convertible preferred stock to financial sponsors and uses the net proceeds to prepay additional amounts outstanding under its senior bank facilities or under any other credit facility secured by a first-priority lien and permanently reduces the related loan commitments in an amount equal to the amount prepaid. Interest on Second-Lien Notes is payable semi-annually on May 15 and November 15.

The Second-Lien Notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by the Company's domestic restricted subsidiaries that are also guarantors under the 12% Senior Subordinated Notes Due 2009 (the "Senior Subordinated Notes") described below. In addition, the Second-Lien Notes and the related guarantees are secured on a second-priority basis by the capital stock or other equity interests of the Company's domestic subsidiaries, 65% of the capital stock or other equity interests of the Company's first-tier foreign subsidiaries and substantially all other assets, in each case that are held by the Company or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

The Issuers filed an exchange offer registration statement on October 1, 2002 relating to the Second-Lien Notes pursuant to a registration rights agreement. The registration statement was declared effective by the Securities and Exchange Commission on January 27, 2003, and the exchange offer was consummated on February 28, 2003.

First-Lien Notes

On March 3, 2003, the Issuers issued $200.0 million principal amount of First-Lien Notes in a private offering that was exempt from the registration requirements of the federal securities laws. The First-Lien Notes, which are callable after four years, were issued at 95.467% of par value and generated net proceeds of approximately $180.9 million after taking into consideration the discount and the payment of expected issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company's senior bank facilities, including $25.0 million relating to the Company's revolving credit facility. In connection with the prepayment, the Company wrote off $3.5 million of debt issuance costs in the first quarter of 2003.

The First-Lien Notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by the Company's domestic restricted subsidiaries. In addition, the First-Lien Notes and related guarantees are secured on a first-priority basis by the assets that secure the senior bank facilities and they rank equal in right of payment with all of the Company's and the guarantors' existing and future senior indebtedness and senior to the Company's and the guarantors' existing and future senior subordinated and subordinated indebtedness and effectively junior to all of the liabilities of the Company's subsidiaries that have not guaranteed such notes.

Senior Subordinated Notes

In connection with the Recapitalization described in Note 1, the Company and ON Semiconductor co-issued $400.0 million principal amount of its 12% senior subordinated notes (the "Senior Subordinated Notes") due 2009. Except as described below, the Senior Subordinated Notes may not be redeemed prior to August 1, 2004. Redemption prices range from 106% of the principal amount if redeemed in 2004 to 100% if redeemed in 2008 or thereafter. The Company was able to redeem up to 35% of the aggregate principal amount of the Senior Subordinated Notes prior to August 4, 2002 with the proceeds of a public equity offering at a redemption price of 112% of the amount redeemed. On May 3, 2000, the Company completed its initial public offering (IPO) of its common stock and a portion of the proceeds was used to redeem $140.0 million of the Senior Subordinated Notes.

Japanese Loan

In 2000, the Company's Japanese subsidiary entered into a yen-denominated note agreement with a Japanese bank to finance the expansion of its manufacturing facilities. The loan, which has a balance of $23.3 million at December 31, 2002 (based on the yen-to-dollar exchange rate in effect at that date) and bears interest at an annual rate of 2.25%, requires semi-annual principal and interest payments through September 2010 of approximately $1.9 million (based on the yen-to-dollar exchange rate at December 31, 2002.) The note is unsecured, however, the bank has rights under the agreement to obtain collateral in certain circumstances. In addition, the note is guaranteed by SCI LLC the Company's primary domestic operating subsidiary.

Debt Issuance Costs

In connection with the Recapitalization, the Company incurred $52.6 million in costs relating to the establishment of its senior bank facilities and the issuance of its Senior Subordinated Notes. During 2002, 2001 and 2000, the Company incurred $12.1 million, $5.1 million and $3.2 million, respectively, relating to amendments under its senior bank facilities or additional borrowings. The Company wrote-off $6.5 million and $11.9 million of debt issuance costs in 2002 and 2000, respectively, in connection with the various prepayments as outlined above. Other assets at December 31, 2002 and 2001 includes $33.7 million and $35.2 million, respectively, of unamortized debt issuance costs.

Annual maturities relating to the Company's long-term debt as of December 31, 2002 are as follows (in millions):

	Actual Maturities
2003	$ 9.3
2004	11.8
2005	236.9
2006	280.9
2007	176.8
Thereafter	687.5
Total	$ 1,403.2

Annual maturities relating to the Company's long-term debt as of July 4, 2003 are as follows (in millions):

	Actual Maturities
	(unaudited)
Remainder of 2003	$ 2.3
2004	6.0
2005	155.8
2006	194.5
2007	176.8
Thereafter	886.2
Total	$ 1,421.6

Note 9: Note Receivable from Affiliates

In connection with the Recapitalization, the Company loaned certain affiliates $83.0 million to refinance third-party non-recourse loans. During 2000 and 2001, the Company loaned these affiliates an additional $43.1 million and $5.0 million, respectively, to finance facility expansion. Such loans totaled $130.6 and $131.1 at December 31, 2002 and 2001, respectively, bear interest at rates ranging from at 7.0%-10.5%, payable quarterly, and mature at various dates through December 31, 2006. These loans are with the following affiliates (in millions):

Company Name	Country	December 31, 2002	December 31, 2001	July 4, 2003
				(unaudited)
Tesla Sezam a.s.	Czech Republic	$ 54.8	$ 54.8	$ 52.1
Terolsil a.s.	Czech Republic	12.5	13.0	11.6
Leshan-Phoenix Semiconductor Company Limited	China	63.3	63.3	58.3
		$130.6	$131.1	$ 122.0

The loans outstanding to Leshan-Phoenix Semiconductor Company Limited were renegotiated during the third quarter of 2002 to reduce the interest rate from 7.0% to 3.5% per annum to better align the interest rate with market rates for similar instruments in China.

Note 10: Income Taxes

Geographic sources of income (loss) before income taxes, extraordinary loss and cumulative effect of accounting change are as follows (in millions):

	Year Ended December 31, 2002	2001	2000
United States	$(227.9)	$(196.6)	$ 63.3
Foreign	97.3	(176.9)	67.7
	$(130.6)	$(373.5)	$131.0

The provision for income taxes is as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
Current			
Federal	$ —	$ (19.5)	$ 26.8
State and local	0.1	0.1	3.2
Foreign	3.9	5.6	15.4
	4.0	(13.8)	45.4
Deferred			
Federal	—	315.8	(8.7)
State and local	—	39.5	(1.3)
Foreign	3.8	1.4	(0.6)
	3.8	356.7	(10.6)
	$7.8	$342.9	$ 34.8

A reconciliation of the U.S. federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2002	2001	2000
U.S. federal statutory rate	(35.0)%	(35.0)%	35.0%
Increase (decrease) resulting from:			
State and local taxes, net of federal tax benefit	(8.9)	(3.5)	2.4
Foreign withholding taxes	1.3	1.5	2.8
Foreign rate differential	(22.1)	11.0	(6.1)
Change in valuation allowance	68.5	117.6	—
Other	2.1	0.2	0.1
	5.9 %	91.8 %	34.2%

Deferred tax assets are as follows (in millions):

	Year Ended December 31,	
	2002	2001
Tax-deductible goodwill	$ 235.2	$ 255.4
Reserves and accruals	24.2	31.7
Inventories	14.8	29.3
Property, plant and equipment	14.9	28.3
Net operating loss and tax credit carryforwards	234.8	94.2
Other	18.2	19.6
Gross deferred tax assets	542.1	458.5
Valuation allowance	(537.9)	(450.6)
Net deferred tax asset	$ 4.2	$ 7.9

A valuation allowance has been recorded against the Company's deferred tax assets, with the exception of deferred tax assets at certain foreign subsidiaries, as management believes it is more likely than not that these assets will not be realized.

As of December 31, 2002, the Company's federal, state, and foreign net operating loss carryforwards were $540.1 million, $606.9 million, and $44.9 million, respectively. If not utilized, these net operating losses will expire in varying amounts from 2006 through 2023. The Company's ability to utilize its federal net operating loss carryforwards may be limited in the future if the Company experiences an ownership change as defined by the Internal Revenue Code.

Income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries (approximately $50.9 million at December 31, 2002) over which it has sufficient influence to control the distribution of such earnings and has determined that such earnings have been reinvested indefinitely. These earnings could become subject to federal income tax if they are remitted as dividends, if foreign earnings are loaned to any of the Company's domestic subsidiaries, or if the Company sells its investment in such subsidiaries. The Company estimates that repatriation of these foreign earnings would generate additional foreign withholding taxes of $11.6 million.

Note 11: Employee Benefit Plans

Defined Benefit Plans

In connection with the Recapitalization, the Company established the ON Semiconductor pension plan (the "Plan") that, after one year of service, covered most U.S. employees who were also formerly employees of Motorola. The Plan's benefit formula was dependent upon employee's earnings and years of service. Benefits under the Plan are valued utilizing the projected unit credit cost method. The Company's policy is to fund its defined benefit plans in accordance with the requirements and regulations of the Internal Revenue Code.

In November 1999, the Plan was amended so that benefit accruals under the Plan will be discontinued effective December 31, 2004 for those employees whose combined age and years of service (in complete years) equaled or exceeded 65 at August 4, 1999 (the "Grandfathered Employees"). Benefit accruals under the plan for all other employees were discontinued effective December 31, 2000. Upon termination or retirement, employees may elect to receive their benefits in the form of either an annuity contract or a lump-sum distribution. In 2000, the ON Semiconductor Grandfathered Pension Plan (the "Grandfathered Plan") was established and the assets and accumulated benefits related to the Grandfathered Employees were transferred to the Grandfathered Plan.

Effective April 15, 2001, the Company terminated the Plan in a standard termination, which requires plan assets be sufficient to provide all benefits for participants and beneficiaries of deceased participants. Substantially all accrued benefits under the Plan were distributed to participants by December 31, 2001.

Certain of the Company's foreign subsidiaries provide retirement plans for substantially all of their employees. Such plans conform to local practice in terms of providing minimum benefits mandated by law, collective agreements or customary practice. Benefits under all foreign pension plans are also valued using the projected unit credit cost method.

The following is a summary of the status of the Company's various pension plans and the net periodic pension cost (dollars in millions):

	2002			2001		
	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Assumptions used to value the Company's pension obligations are as follows:						
Rate of compensation increase	3.00%	3.17%		3.00%	3.77%	
Discount rate	5.00%	4.40%		7.40%	5.08%	
Benefit obligation, beginning of period	$ 41.5	$ 22.3	$ 63.8	$ 77.4	$ 32.8	$ 110.2
Service cost	1.8	1.3	3.1	2.1	2.2	4.3
Interest cost	3.0	0.8	3.8	2.4	1.6	4.0
Curtailment gain	—	(0.3)	(0.3)	—	(0.2)	(0.2)
Actuarial (gain) loss	5.3	1.2	6.5	18.0	(0.5)	17.5
Benefits paid	(4.8)	(6.7)	(11.5)	(58.4)	(11.7)	(70.1)
Translation (gain) loss	—	0.7	0.7	—	(1.9)	(1.9)
Benefit obligation, end of period	$ 46.8	$ 19.3	$ 66.1	$ 41.5	$ 22.3	$ 63.8
Change in Plan Assets:						
Fair value, beginning of period	$ 10.1	$ 9.1	$ 19.2	$ 60.5	$ 18.1	$ 78.6
Actual return on plan assets	(1.1)	0.3	(0.8)	0.4	(0.6)	(0.2)
Employer contributions	13.0	1.3	14.3	7.6	4.4	12.0
Benefits paid	(4.8)	(6.7)	(11.5)	(58.4)	(11.7)	(70.1)
Translation gain (loss)	—	—	—	—	(1.1)	(1.1)
Fair value, end of period	$ 17.2	$ 4.0	$ 21.2	$ 10.1	$ 9.1	$ 19.2
Balances, end of period:						
Pension benefit obligation	$ (46.8)	$ (19.3)	$ (66.1)	$ (41.5)	$ (22.3)	$ (63.8)
Fair value of plan assets	17.2	4.0	21.2	10.1	9.1	19.2
Funded status	(29.6)	(15.3)	(44.9)	(31.4)	(13.2)	(44.6)
Unrecognized net actuarial loss (gain)	20.0	1.5	21.5	17.3	(0.2)	17.1
Unrecognized prior service cost	0.9	1.9	2.8	1.3	2.2	3.5
Net liability recognized end of period	$ (8.7)	$ (11.9)	$ (20.6)	$ (12.8)	$ (11.2)	$ (24.0)
The net amounts recognized in the consolidated balance sheet consist of the following:						
Accrued expenses	$ (6.4)	$ (2.0)	$ (8.4)	$ (13.0)	$ (1.3)	$ (14.3)
Other long-term liabilities	(22.0)	(11.8)	(33.8)	(14.9)	(9.9)	(24.8)
Intangible asset	0.8	1.2	2.0	1.3	—	1.3
Accumulated other comprehensive income (loss)	18.9	0.7	19.6	13.8	—	13.8
Net liability recognized, end of period	$ (8.7)	$ (11.9)	$ (20.6)	$ (12.8)	$ (11.2)	$ (24.0)

	2002			2001			2000		
	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Assumptions used to determine pension costs are as follows:									
Discount rate	7.40%	5.08%		6.80%	5.76%		6.80%	6.22%	
Expected return on assets	8.50%	3.17%		8.50%	7.46%		8.50%	5.15%	
Rate of compensation increase	3.00%	3.77%		3.00%	3.77%		5.00%	4.75%	
Components of net periodic pension cost:									
Service cost	$ 1.8	$ 1.3	$ 3.1	$ 2.1	$ 2.2	$ 4.3	$ 4.7	$ 2.6	$ 7.3
Interest cost	3.0	0.8	3.8	2.4	1.6	4.0	4.5	2.0	6.5
Expected return on assets	(1.2)	(0.3)	(1.5)	(1.4)	(1.0)	(2.4)	(5.2)	(1.5)	(6.7)
Amortization of prior service cost	0.1	0.3	0.4	0.2	0.4	0.6	0.2	0.6	0.8
Other losses	4.9	—	4.9	0.3	—	0.3	—	—	—
Settlement loss (curtailment gain)	0.4	(0.3)	0.1	9.9	2.3	12.2	—	—	—
Net periodic pension cost	$ 9.0	$ 1.8	$10.8	$ 13.5	$ 5.5	$19.0	$ 4.2	$ 3.7	$ 7.9

As described in Note 4 "Accounting Changes," the Company changed its method of accounting for unrecognized actuarial gains or losses to its defined benefit pension obligation.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $63.8 million, $56.8 million, and $19.6 million, respectively as of December 31, 2002 and $60.4 million, $54.6 million and $16.3 million, respectively as of December 31, 2001.

The Company recognizes a minimum liability in its financial statements for its underfunded pension plans. The accrued pension liability of $42.2 million and $39.1 million at December 31, 2002 and 2001, respectively includes an additional minimum liability of $21.6 million and $15.1 million, respectively. The additional minimum liability was offset by a $2.0 million intangible asset and a $19.6 increase to stockholders' deficit at December 31, 2002 compared with a $1.3 million intangible asset and a $13.8 million increase to stockholders' deficit at December 31, 2001.

In regards to the Grandfathered Plan, the Company reevaluated its current assumptions in light of the actual returns experienced, current annuity rates and the expected discontinuation of benefits as of December 31, 2004 with the subsequent payment of benefits in 2005. The discount rate used to determine the pension obligation at December 31, 2002 and to determine future expense was lowered to 5.0% from 7.4% in the previous year. In addition, the expected return on plan assets used to determine future expense was lowered to 2.5% from 8.5%, reflecting the Company's change in investment policy regarding the assets of the Grandfathered Plan. Upon the termination of the Grandfathered Plan, the Company is obligated to ensure that the plan has assets sufficient to pay accrued benefits.

Defined Contribution Plans

The Company has a deferred compensation plan ("the Savings Plan") for all eligible U.S. employees established under the provisions of Section 401(k) of the Internal Revenue Code. Eligible employees may contribute a percentage of their salary subject to certain limitations. Effective January 1, 2000, the Company began a matching contribution of 100% of the first 4% of employee contributions, and 50% of the next 4% of employee contributions, as defined in the Savings Plan.

The Company recognized $7.1 million of expense relating to matching contributions in 2000. Effective March 1, 2001 the Company amended the Savings Plan to make the matching contribution discretionary. A discretionary matching contribution was offered through April 2001, resulting in $2.2 million of related expense in 2001. Effective January 1, 2002, the Company reinstated a discretionary matching contribution of 100% of the first 3% of employee contributions and, if certain financial goals are achieved, an additional 50% of the next 6% of employee contributions. In 2002 the Company recognized $4.0 of expense relating to matching contributions in 2002.

Certain foreign subsidiaries have defined contribution plans in which eligible employees participate. The Company recognized compensation expense of $0.4 million, $0.6 million and $1.0 million relating to these plans for the years ended 2002, 2001 and 2000, respectively.

Note 12: Financial Instruments

Foreign Currencies

As a multinational business, the Company's transactions are denominated in a variety of currencies. When appropriate, the Company uses forward foreign currency contracts to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. The Company's policy prohibits trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure.

Under the Company's foreign exchange management program, foreign subsidiaries provide forecasts of their foreign currency exposures. The Company then aggregates the forecasted amounts and enters into foreign currency contracts in order to create an offset to the underlying exposures. Losses or gains on the underlying cash flows or investments offset gains or losses on the financial instruments. The Company primarily hedges existing assets and liabilities and cash flows associated with transactions currently on its balance sheet.

At December 31, 2002 and 2001, the Company had net outstanding foreign exchange contracts with notional amounts of $19.5 million and $33.8 million, respectively. Such contracts were obtained through financial institutions and were scheduled to mature within three months. Management believes that these financial instruments should not subject the Company to increased risks from foreign exchange movements because gains and losses on these contracts, which are included in other current liabilities, should offset losses and gains on the assets, liabilities and transactions being hedged. The following schedule shows the net foreign exchange positions in U.S. dollars as of December 31, 2002 and 2001 (in millions):

	December 31,	
	2002 Buy (Sell)	2001 Buy (Sell)
Japanese Yen	$ (16.3)	$ (31.9)
Czech Koruna	2.7	—
Euro	(11.4)	(8.0)
Philippine Peso	1.8	—
Mexican Peso	0.3	2.4
British Pound	5.0	6.1
Singapore Dollar	1.8	1.5
Swedish Krona	1.5	—
Taiwan Dollar	(4.9)	(3.4)
Other	—	(0.5)
	$ (19.5)	$ (33.8)

The Company is exposed to credit-related losses if counterparties to its foreign exchange contracts fail to perform their obligations. At December 31, 2002, the counterparties on the Company's foreign exchange contracts are two highly rated financial institutions and no credit-related losses are anticipated. Amounts payable or receivable under the contracts are included in other current assets or accrued expenses in the accompanying consolidated balance sheet. For 2002, 2001, and 2000, aggregate foreign currency transaction gains/(losses) total $(0.3) million, $1.2 million and $6.9 million, respectively.

Interest Rate Agreements

At December 31, 2002, the Company had two interest rate swaps of $100.0 million and $55.0 million, which were required by its senior bank facilities. The interest rate swaps are floating-to-fixed rate agreements based on LIBOR with quarterly interest rate resets. The $100.0 million swap has a fixed rate of 5.9% and expires in December 2004 while the $55.0 million swap has a fixed rate of 6.8% and expires in September 2003. The notional amounts are used solely as the basis for which the payment streams are calculated and exchanged. The notional amount is not a measure of the exposure to the Company through the use of the swaps. Amounts to be paid or received under the contracts are recorded in either other current assets or accrued expenses in the accompanying consolidated balance sheet and as an adjustment to interest expense.

Other

At December 31, 2002, the Company had no outstanding commodity derivatives, currency swaps or options relating to either its debt instruments or investments. The Company does not hedge the value of its equity investments in its subsidiaries or affiliated companies.

Note 13: Fair Value of Financial Instruments

The Company uses the following methods to estimate the fair values of its financial instruments:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short-term maturities of such instruments.

Notes Receivable from Affiliates

Due to the related party nature of the notes receivable from affiliates, it was not practicable to estimate their fair values due to the inability to obtain quoted market prices or determine current market rates for similar instruments. At December 31, 2002 and 2001, the carrying value of the notes receivable from affiliates was $130.6 million and $131.1 million, respectively.

Long-term Debt

The fair values of the Company's long-term borrowings are determined by obtaining quoted market prices if available or market prices for comparable debt instruments.

Foreign Currency Exchange Contracts

Forward foreign exchange contracts are valued at current foreign exchange rates for contracts with similar maturities.

Interest Rate Agreements

The fair values of the Company's interest rate swaps represent the amounts at which they could be settled and are estimated by obtaining quotes from brokers.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2002 and 2001 are as follows (in millions):

	December 31, 2002		December 31, 2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$(1,393.9)	$(999.9)	$(1,374.5)	$(1,132.3)
Foreign currency exchange contracts	(0.3)	(0.3)	0.9	0.9
Interest rate agreements	(10.5)	(10.5)	(12.2)	(12.2)

Note 14: Stock Options

Certain employees of the Company participate in the ON Semiconductor 1999 Founders Stock Option Plan ("the 1999 Plan"), which is an incentive plan for key employees, directors and consultants. A total of 11.6 million shares of ON Semiconductor's common stock have been reserved for issuance under the 1999 Plan. The 1999 Plan is administered by the ON Semiconductor Board of Directors or a committee thereof, which is authorized to, among other things, select the key employees, directors and consultants who will receive grants and determine the exercise prices and vesting schedules of the options. Prior to the existence of a public market for ON Semiconductor's common stock, ON Semiconductor's Board of Directors determined the fair market value.

Company employees also participate in ON Semiconductor's 2000 Stock Incentive Plan ("the 2000 Plan") to provide key employees, directors and consultants with various equity-based incentives as described in the plan document. During 2001, ON Semiconductor stockholders voted to amend the 2000 Plan to increase the number of shares of its common stock issuable thereunder by 3.0 million (for an aggregate of 13.0 million shares at December 31, 2001). The 2000 Plan is administered by the ON Semiconductor Board of Directors or a committee thereof, which is authorized to determine, among other things, the key employees, directors or consultants who will receive awards under the plan, the amount and type of award, exercise prices or performance criteria, if applicable, and vesting schedules.

Generally, the options granted under both plans vest over a period of four years. Under the 1999 Plan, all outstanding options and under the 2000 Plan certain outstanding options vest automatically upon a change of control, as defined, provided the option holder is employed by the Company on the date of the change in control. Under the 2000 Plan, certain other outstanding options vest upon a change of control if the Board of Directors of ON Semiconductor, in its discretion, provides for acceleration of the vesting of said options. Upon the termination of an option holder's employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability).

There was an aggregate of 6.3 million, 4.7 million and 6.6 million shares of common stock available for grant under the 1999 Plan and the 2000 Plan at December 31, 2002, 2001 and 2000, respectively.

Additional information with respect to the activity of the stock option plans as it relates to the employees of the Company is as follows (in millions, except per share data):

	2002		2001		2000	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	18.2	$ 5.87	13.8	$ 6.49	9.5	$ 1.50
Grants	8.0	3.00	8.4	5.26	5.4	15.09
Exercises	(0.7)	1.50	(0.5)	1.50	(0.4)	1.50
Cancellations	(2.6)	9.99	(3.5)	7.42	(0.7)	7.71
Outstanding at end of year	22.9	$ 4.55	18.2	$ 5.87	13.8	$ 6.49
Exercisable at end of year	7.9	$ 4.95	4.4	$ 4.74	2.2	$ 3.63
Weighted average fair value of options granted during the period		$ 1.83		$ 3.25		$ 8.67

The following tables summarize options outstanding and options exercisable at December 31, 2002 (shares in millions):

	Outstanding Options		
Range of Exercise Prices	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
$1.25–$1.50	6.9	7.01	$ 1.48
$1.80–$2.71	2.1	9.84	1.95
$3.22–$4.24	7.8	8.97	3.51
$5.50–$9.03	3.7	8.20	6.42
$10.88–$21.38	2.4	7.38	15.84
Totals	22.9		$ 4.55

	Exercisable Options		
Range of Exercise Prices	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
$1.25–$1.50	5.0	6.73	$ 1.50
$3.22–$4.24	0.4	8.54	3.86
$5.50–$9.03	1.0	8.10	6.65
$10.88–$21.38	1.5	7.37	15.85
Totals	7.9		$ 4.95

These options will expire if not exercised at specific dates through November 2012.

In 2002, the Company recorded charges of $4.1 million related to the modification of option terms for employees terminated under the restructuring plan as well as the separation of an executive officer. These charges are recorded in restructuring and other in the consolidated statement of operations with an offsetting credit to additional paid-in capital. In 2002, the Company also recorded $0.4 million of compensation expense related to stock options issued to consultants and other stock option modifications to certain employees.

In 2001, ON Semiconductor, on behalf of the Company, issued warrants to purchase 1,250,000 shares of common stock to consultants for services rendered during 2001. These warrants, which have an exercise price of $1.90 per share, were recorded at their estimated fair value of $1.3 million as a charge to general and administrative expense and with an offsetting credit to contributed capital. These warrants vested at the date of grant and expire in October 2005.

During 2000, an employee of the Company was granted 80,000 stock appreciation rights under the 2000 Plan with a reference price of $16.00.

In 2000, the Company granted certain consultants options to purchase approximately 91,000 shares of common stock at exercise prices ranging from $1.50 to $16.00 per share. The aggregate estimated fair value of these options of $1.2 million was recognized as general and administrative expense over the term of the respective consulting agreements, approximately $0.5 million in 2001 and $0.7 million in 2000. These grants expire at various dates through June 2003.

The Company’s employees participate in the 2000 Employee Stock Purchase Plan sponsored by ON Semiconductor. Subject to local legal requirements, each of the Company’s full-time employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of ON Semiconductor’s common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. Employees are limited to annual purchases of $25,000 under this plan. In addition, during each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to $6,250 divided by the fair market value of the stock on the first day of the offering period. During 2002, 2001 and 2000, employees purchased approximately 1.0 million, 1.3 million and 1.0 million shares under the plan. During 2001, shareholders voted to amend the 2000 Employee Stock Purchase Plan to increase the number of shares of ON Semiconductor’s common stock issuable thereunder by 4.0 million (for an aggregate of 5.5 million shares).

Note 15: Commitments and Contingencies

Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of December 31, 2002 (in millions):

Year Ending December 31:	
2003	$ 9.0
2004	4.1
2005	2.4
2006	1.1
2007	0.3
Thereafter	—
	$16.9

The Company’s existing leases do not contain significant restrictive provisions; however, certain leases contain renewal options and provisions for payment by the Company of real estate taxes, insurance and maintenance costs. Total rent expense for the years ended December 31, 2002, 2001 and 2000 was $11.8 million, $10.5 million and $12.7 million, respectively.

At December 31, 2002, two letters of credit totaling $7.5 million partially secure an operating lease and a service agreement with an information technology vendor. A downgrade in the Company’s debt rating could trigger acceleration of remaining amounts due under these agreements, a portion of which would be satisfied by the letters of credit. The lease expires 2003 while the service agreement expires in 2006. These letters of credit are renewable on a yearly basis until 2005 when they expire.

Other Contingencies

The Company’s manufacturing facility in Phoenix, Arizona is located on property that is a “Superfund” site, a property listed on the National Priorities List and subject to clean-up activities under the Comprehensive Environmental Response, Compensation, and Liability Act. Motorola is actively involved in the cleanup of on-site solvent contaminated soil and groundwater and off-site contaminated groundwater pursuant to consent decrees with the State of Arizona. As part of the August 4, 1999 recapitalization, Motorola has retained responsibility for this contamination, and has agreed to indemnify the Company with respect to remediation costs and other costs or liabilities related to this matter.

Commitments with Affiliates

Leshan-Phoenix Semiconductor Company Limited (“Leshan”), operates a back-end manufacturing facility in Leshan, China. ON Semiconductor owns a majority of the outstanding equity interests of the Leshan joint venture. Pursuant to the joint venture agreement, requests for production capacity are made to the board of directors of Leshan by each shareholder. These requests represent a purchase commitment by the respective shareholder of the Leshan joint venture; however, each shareholder may elect to pay the cost associated with the unused capacity (which is generally equal to the fixed cost of the capacity), in lieu of the commitment. The Company provides forecasted needs to Leshan on a periodic basis, an approximate six-month cycle, which are used to establish pricing over the forecasted period, and, as described above, the Company is responsible for underutilized capacity cost due to variations from our forecasted needs. The Company committed to purchase 85%, 81% and 86% of the total products produced by Leshan in 2002, 2001 and 2000, respectively, and is currently committed to purchase 82% of the product produced by Leshan in 2003. In 2002, 2001 and 2000, respectively, the Company made actual purchases of 76%, 43% and 86% of Leshan’s production and, as a result, incurred $1.5 million and $6.4 million in underutilization charges in 2002 and 2001, respectively.

Legal Matters

The Company and ON Semiconductor are involved in a variety of legal matters that arise in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters, including the matters described in the next paragraph, will have a material adverse effect on the Company or ON Semiconductor’s financial condition, results of operations or cash flows.

During the period July 5, 2001 through July 27, 2001, ON Semiconductor was named as a defendant in three shareholder class action lawsuits that were filed in federal court in New York City against ON Semiconductor and certain of its current and former officers, current directors and the underwriters for its initial public offering. The lawsuits allege violations of the federal securities laws and have been docketed in the U.S. District Court for the Southern District of New York as: *Abrams v. ON Semiconductor Corp., et al.*, C.A. No. 01-CV-6114; *Breuer v. ON Semiconductor Corp., et al.*, C.A. No. 01-CV-6287; and *Cohen v. ON Semiconductor Corp., et al.*, C.A. No. 01-CV-6942. On April 19, 2002, the plaintiffs filed a single consolidated amended complaint that supersedes the individual complaints originally filed. The amended complaint alleges, among other things, that the underwriters of ON Semiconductor’s initial public offering improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of ON Semiconductor’s common stock in the aftermarket as conditions of receiving shares in its initial public offering. The amended complaint further alleges that these supposed practices of the underwriters should have been disclosed in ON Semiconductor’s initial public offering prospectus and registration statement. The amended complaint alleges violations of both the registration and antifraud provisions of the federal securities laws and seeks unspecified damages. We understand that various other plaintiffs have filed substantially similar class action cases against approximately 300 other publicly traded companies and their public offering underwriters in New York City, which along with the cases against ON Semiconductor have all been transferred to a single federal district judge for purposes of coordinated case management. ON Semiconductor believes that the claims against it are without merit and have defended, and intend to continue to defend, the litigation vigorously. The litigation process is inherently uncertain, however, and ON Semiconductor cannot guarantee that the outcome of these claims will be favorable for it.

On July 15, 2002, together with the other issuer defendants, ON Semiconductor filed a collective motion to dismiss the consolidated, amended complaints against the issuers on various legal grounds common to all or most of the issuer defendants. The underwriters also filed separate motions to dismiss the claims against them. In addition, the parties have stipulated to the voluntary dismissal without prejudice of our individual current and former officers and directors who were named as defendants in our litigation, and they are no longer parties to the lawsuit. On February 19, 2003, the Court issued its ruling on the motions to dismiss filed by the underwriter and issuer defendants. In that ruling the Court granted in part and denied in part those motions. As to the claims brought against ON Semiconductor under the antifraud provisions of the securities laws, the Court dismissed all of these claims with prejudice, and refused to allow plaintiffs the opportunity to re-plead these claims. As to the claims brought under the registration provisions of the securities laws, which do not require that intent to defraud be pleaded, the Court denied the motion to dismiss these claims as to ON Semiconductor and as to substantially all of the other issuer defendants as well. The Court also denied the underwriter defendants' motion to dismiss in all respects.

In June 2003, upon the determination of a special independent committee of the Board of Directors, ON Semiconductor elected to participate in a proposed settlement with the plaintiffs in this litigation. If ultimately approved by the Court, this proposed settlement would result in a dismissal, with prejudice, of all claims in the litigation against ON Semiconductor and against any of the other issuer defendants who elect to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation against those defendants is continuing. The proposed settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of $1 billion by the participating issuer defendants. If recoveries totaling less than $1 billion are obtained by the class members from the underwriter defendants, the class members will be entitled to recover the difference between $1 billion and the aggregate amount of those recoveries from the participating issuer defendants. If recoveries totaling $1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition ON Semiconductor and any other participating issuer defendants will be required to assign to the class members certain claims that they may have against the underwriters of their initial public offerings.

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers liability insurance policy proceeds as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. ON Semiconductor expects that its insurance proceeds will be sufficient for these purposes and that it will not otherwise be required to contribute to the proposed settlement. Consummation of the proposed settlement is conditioned upon, among other things, negotiating, executing, and filing with the Court final settlement documents, and final approval by the Court. If the proposed settlement described above is not consummated, however ON Semiconductor intends to continue to defend the litigation vigorously. While the Company can make no promises or guarantees as to the outcome of these proceedings, we believe that the final result of these actions will have no material effect on the Company's consolidated financial condition, results of operations or cash flows.

Note 16: Related Party Transactions

The Company agreed to pay TPG an annual management fee of up to $2.0 million. In connection with the Cherry acquisition described in Note 6, the Company paid TPG a $2.0 million advisory fee in-lieu of the annual management fee for 2000. Under the Company's amended debt agreements, the payment of the annual management fee to TPG in cash has been waived until certain conditions are met and no such payments occurred in 2001 or 2002. Management fees may be paid to TPG with the Company's common stock or warrants.

In connection with the Recapitalization, Motorola assigned, licensed or sublicensed intellectual property to the Company relating to certain of the Company's products. Motorola also agreed to continue providing manufacturing and assembly services, to continue using similar services the Company provides to them and to lease real estate to the Company. The manufacturing and assembly services that the Company and Motorola have agreed to continue to provide to each other are at prices intended to approximate each party's cost of providing the services and are fixed throughout the term of the agreements. Subject to the Company's right to cancel upon six months' written notice, the Company has minimum commitments to purchase manufacturing services from Motorola of approximately $1.0 million in 2003.

Related party activity between the Company and Motorola is as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
Cash paid for:			
Purchases of manufacturing services from Motorola	$13.8	$86.1	$162.3
Cost of other services, rent and equipment purchased from Motorola	1.5	17.7	96.0
Cash received for:			
Freight sharing agreement with Motorola	$21.4	$21.9	$ 23.8
Rental of property and equipment to Motorola	9.1	11.2	11.9
Product sales to Motorola	98.2	92.5	215.8

On April 8, 2002, the Company and Motorola, Inc. reached agreement regarding certain post-closing payments to be made under agreements entered into in connection with the August 1999 Recapitalization. Pursuant to the agreement, Motorola paid the Company $10.6 million during the second quarter of 2002. As a result, the Company recognized a related gain of $12.4 million, which is included in restructuring and other in the consolidated statement of operations and comprehensive loss for the year ended December 31, 2002.

As part of the Recapitalization, Motorola agreed to provide the Company with worldwide freight services through August 4, 2002. This agreement resulted in better prices than the Company could obtain from third parties. The cost increases resulting from the expiration of this agreement, which totaled approximately $11 million in 2002 as compared to 2001, have been factored into our current operating plans.

ON Semiconductor operates two manufacturing facilities in the Czech Republic. The Company purchases the majority of the related products as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
Purchases of manufacturing services and inventory	$84.3	$60.5	$77.1

Note 17: Supplemental Disclosure of Cash Flow Information

The Company's non-cash financing activities and cash payments for interest and income taxes are as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
Non-cash financing activities:			
Equipment acquired through capital leases	$ —	$ 3.0	$ —
Cash (received) paid for:			
Interest	98.9	118.1	131.2
Income taxes	(0.6)	(1.3)	53.6

Note 18: Subsequent Event

The Company adopted SFAS No. 145 "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" effective January 1, 2003, which required the reclassification within the consolidated statement of operations of losses on debt prepayments previously classified as extraordinary items which totaled $6.5 million and $29.2 million in 2002 and 2000, respectively.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2002 and 2001 and for the Years Ended December 31, 2002 and 2001
and for the Period from October 27, 2000 (inception) through December 31, 2000

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and
Stockholder of ON Semiconductor Trading, LTD.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholder's equity (deficit) and cash flows present fairly, in all material respects, the financial position of ON Semiconductor Trading LTD and its subsidiaries (an indirect wholly-owned subsidiary of ON Semiconductor Corporation) at December 31, 2002 and 2001, and the results of their operations and their cash flows for the years ended December 31, 2002 and 2001 and for the period from October 27, 2000 through December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company has extensive transactions and relationships with ON Semiconductor Corporation and its affiliates. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

As described in Note 4 to the consolidated financial statements, the Company changed its method of accounting for sales to distributors effective January 1, 2001.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona
February 5, 2003, except for
the fourth paragraph of
Note 12 for which the date is
March 3, 2003

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED BALANCE SHEET

	December 31,		July 4,
	2002	2001	2003
			(unaudited)
	(In millions, except share data)		
ASSETS			
Cash and cash equivalents	$ 30.8	$ 33.5	$ 25.5
Receivables, net	73.0	68.5	87.5
Inventories, net	108.6	152.3	127.2
Other current assets	16.3	3.9	16.3
Income taxes receivable	3.5	—	4.9
Due from affiliates	—	96.7	—
Deferred income taxes	2.8	3.6	3.9
Total current assets	235.0	358.5	265.3
Property, plant and equipment, net	8.8	15.1	8.1
Deferred income taxes	1.3	1.8	1.3
Other assets	—	0.1	0.1
Total assets	$ 245.1	$ 375.5	$ 274.8
LIABILITIES AND STOCKHOLDER’S EQUITY (DEFICIT)			
Accounts payable	$ 24.0	$ 40.6	$ 37.9
Accrued expenses	21.2	11.2	24.3
Due to affiliates	76.7	5.6	53.4
Income taxes payable	—	0.3	—
Deferred income on sales to distributors	52.9	61.4	48.0
Total current liabilities	174.8	119.1	163.6
Other long-term liabilities	2.0	2.4	2.1
Notes payable to parent	160.3	367.9	169.5
Total liabilities	337.1	489.4	335.2
Commitments and contingencies (See Note 12)	—	—	—
Common stock ($1.00 par value, 50,000 shares authorized, 12,000 shares issued and outstanding)	—	—	—
Additional paid-in capital	40.4	40.4	40.4
Accumulated other comprehensive income	0.5	0.5	0.5
Retained earnings (accumulated deficit)	(132.9)	(154.8)	(101.3)
Total stockholder’s equity (deficit)	(92.0)	(113.9)	(60.4)
Total liabilities and stockholder’s equity (deficit)	$ 245.1	$ 375.5	$ 274.8

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,		October 27, 2000 (inception) through December 31,	Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
			(In millions)		
Revenues:					
External revenues	$ 690.0	$ 744.4	$ 202.2	$ 348.3	$ 340.9
Revenues from affiliates	230.3	272.9	106.3	123.9	123.5
Total revenues	920.3	1,017.3	308.5	472.2	464.4
Cost of sales:					
External cost of sales	473.5	598.6	141.1	244.3	247.1
Cost of sales to affiliates	288.1	341.0	95.9	130.1	123.0
Total cost of sales	761.6	939.6	237.0	374.4	370.1
Gross profit	158.7	77.7	71.5	97.8	94.3
Operating expenses:					
Research and development	55.1	72.4	2.3	34.9	26.6
Selling and marketing	24.6	28.6	6.9	12.4	12.0
General and administrative	37.7	43.3	40.8	15.5	14.5
Restructuring and asset impairments	6.0	16.0	—	1.7	5.5
Total operating expenses	123.4	160.3	50.0	64.5	58.6
Operating income (loss)	35.3	(82.6)	21.5	33.3	35.7
Interest expense, net	(12.1)	(13.3)	(0.8)	(4.0)	(7.4)
Income (loss) before income taxes and cumulative effect of accounting change	23.2	(95.9)	20.7	29.3	28.3
Income tax benefit (provision)	(1.3)	1.2	0.7	2.3	(5.2)
Income (loss) before cumulative effect of accounting change	21.9	(94.7)	21.4	31.6	23.1
Cumulative effect of accounting change, net of tax	—	(81.5)	—	—	—
Net income (loss)	$ 21.9	$ (176.2)	$ 21.4	$ 31.6	$ 23.1

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (DEFICIT)

	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
		(In millions)		
Contribution of interests in affiliated companies from Parent at inception	$ 40.4	$ —	$ —	$ 40.4
Comprehensive income:				
Net income	—	—	21.4	21.4
Other comprehensive income:				
Foreign currency translation adjustment	—	0.6	—	0.6
Other comprehensive income	—	0.6	—	0.6
Comprehensive income	—	—	—	22.0
Balance at December 31, 2000	40.4	0.6	21.4	62.4
Comprehensive loss:				
Net loss	—	—	(176.2)	(176.2)
Other comprehensive loss:				
Foreign currency translation adjustment	—	(0.1)	—	(0.1)
Other comprehensive loss	—	(0.1)	—	(0.1)
Comprehensive loss	—	—	—	(176.3)
Balance at December 31, 2001	40.4	0.5	(154.8)	(113.9)
Comprehensive income:				
Net income	—	—	21.9	21.9
Comprehensive income	—	—	—	21.9
Balance at December 31, 2002	40.4	0.5	(132.9)	(92.0)
Comprehensive income (unaudited):				
Net income (unaudited)	—	—	31.6	29.5
Comprehensive income (unaudited)	—	—	—	29.5
Balance at July 4, 2003 (unaudited)	$ 40.4	$ 0.5	$ (101.3)	$ (62.5)

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2002	Year Ended December 31, 2001	October 27, 2000 (inception) through December 31, 2000	Six Months Ended July 4, 2003	Six Months Ended June 28, 2002
			(In millions)	(unaudited)	(unaudited)
Cash flows from operating activities:					
Net income (loss)	$ 21.9	$ (176.2)	$ 21.4	$ 31.6	$ 23.1
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	4.7	7.1	0.5	2.2	2.6
Cumulative effect of accounting change	—	81.5	—	—	—
Provision for excess inventories	13.2	42.4	4.7	5.3	12.1
Non-cash impairment of property, plant and equipment	0.2	2.7	—	0.2	—
Deferred income taxes	1.3	1.3	(3.0)	(1.1)	(0.1)
Other	0.9	(0.9)	—	—	1.1
Changes in assets and liabilities:					
Receivables	(23.9)	78.4	(12.2)	(14.5)	(25.2)
Inventories	30.5	17.1	(4.6)	(23.9)	18.5
Other assets	(12.3)	1.1	(2.6)	(0.1)	(8.9)
Due from affiliates	106.4	(93.7)	—	(1.4)	103.2
Accounts payable	(7.4)	(8.7)	(5.2)	13.9	7.9
Accrued expenses	10.0	(44.5)	9.9	3.1	10.3
Due to affiliates	72.2	(77.6)	(8.5)	(24.5)	0.6
Income taxes payable	(3.8)	(13.4)	2.5	—	2.1
Deferred income on sales to distributors	(8.5)	(34.3)	—	(4.9)	(9.9)
Other long-term liabilities	(0.4)	0.2	0.3	0.1	0.2
Net cash provided by (used in) operating activities	205.0	(217.5)	3.2	(14.0)	137.6
Cash flows from investing activities:					
Purchases of property, plant and equipment	(0.3)	(2.5)	(1.3)	(0.5)	(0.2)
Proceeds from sales of property, plant and equipment	0.2	0.3	—	—	—
Net cash used in investing activities	(0.1)	(2.2)	(1.3)	(0.5)	(0.2)
Cash flows from financing activities:					
Cash received in connection with contribution of interests in affiliated companies from Parent at inception	—	—	31.9	—	—
Proceeds from borrowings from Parent	206.3	515.5	58.7	152.3	120.4
Repayment of borrowings from Parent	(413.9)	(320.0)	(34.8)	(143.1)	(241.7)
Net cash provided by (used in) financing activities	(207.6)	195.5	55.8	9.2	(121.3)
Net increase (decrease) in cash and cash equivalents	(2.7)	(24.2)	57.7	(5.3)	16.1
Cash and cash equivalents, beginning of period	33.5	57.7	—	30.8	33.5
Cash and cash equivalents, end of period	$ 30.8	$ 33.5	$ 57.7	$ 25.5	$ 49.6

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

ON Semiconductor Trading Ltd. (the "Company" or "ON Trading"), located in Hamilton, Bermuda, is a wholly-owned subsidiary of Semiconductor Components Industries, LLC ("SCI LLC" or "Parent"), which is a wholly-owned subsidiary of ON Semiconductor Corporation ("ON Semiconductor"). ON Trading is responsible for selling ON Semiconductor's products outside the United States, Mexico, Brazil and Puerto Rico. ON Trading performs certain functions related to sales, procurement, data aggregation, inventory management, research and development, and managing distribution scheduling. In order to function in this capacity, ON Trading entered into a cost sharing agreement with SCI LLC during 2000, which provided ON Trading with the right to use ON Semiconductor's intellectual property for the purpose of manufacturing, selling, importing and exporting property outside of the United States, Mexico, Brazil and Puerto Rico.

In October 2000, SCI LLC transferred the ownership of certain of its wholly-owned subsidiaries to the Company in exchange for 12,000 shares of the Company's common stock which represents the entire ownership in the Company. These transactions were accounted for as the combination of companies under common control and have been reflected in the accompanying financial statements on the historical cost basis. The book value of the net assets transferred, which included $31.9 million of cash, was $40.4 million.

The accompanying unaudited financial statements as of July 4, 2003 and for the six months ended June 28, 2002 and July 4, 2003, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information and on the same basis of presentation as the audited financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements. In the opinion of the Company's management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited.

Note 2: Liquidity

During the six months ended July 4, 2003, ON Semiconductor incurred a net loss of $108.0 million, compared to a net loss of $81.8 million, for the six months ended June 28, 2002. ON Semiconductor's net loss included restructuring, asset impairments and other charges of $34.6 million for the six months ended July 4, 2003 as compared to $10.2 million for the six months ended June 28, 2002. ON Semiconductor's net loss for the first six months of 2003 also included a charge of $21.5 million relating to a change in accounting principle. Net cash provided by operating activities was $16.7 million in the six months ended July 4, 2003, as compared to net cash provided by operating activities of $12.5 million for the six months ended June 28, 2002.

At July 4, 2003, ON Semiconductor had $181.2 million in cash and cash equivalents, net working capital of $196.5 million, term or revolving debt of $1,441.6 million and a stockholders' deficit of $750.7 million. ON Semiconductor's long-term debt includes $520.7 million under its senior bank facilities; $292.0 million (net of discount) of its 13% second lien senior secured notes due 2008; $191.2 million (net of discount) of its 12% first lien senior secured notes due 2010; $260.0 million of its 12% senior subordinated notes due 2009; $133.4 million under a 10% junior subordinated note payable to Motorola due 2011; $23.4 million under a note payable to a Japanese bank due 2010; $20.0 million under a loan facility with a Chinese bank and $0.9 million under a capital lease obligation. ON Semiconductor was in compliance with all of the covenants contained in its various debt agreements as of July 4, 2003 and expects to remain in compliance over the next twelve months.

During the year ended December 31, 2002, ON Semiconductor incurred a net loss of $141.9 million compared to a net loss of $831.4 million in 2001 and net income of $71.1 million in 2000. ON Semiconductor's net results included restructuring, asset impairments and other of $27.7 million, $150.4 million and $4.8 million in 2002, 2001 and 2000, respectively, as well as interest expense of $149.5 million, $139.6 million and $135.3 million, respectively. ON Semiconductor's operating activities provided cash of $46.4 million in 2002 and $312.2 million in 2000 and used cash of $116.4 million in 2001.

At December 31, 2002, ON Semiconductor had $190.4 million in cash and cash equivalents, net working capital of $195.2 million, term or revolving debt of $1,423.2 million and a stockholders' deficit of $662.1 million. ON Semiconductor's long-term debt includes $701.6 million under its senior bank facilities; $291.4 million (net of discount) of its 12% senior secured notes due 2008; $260.0 million of its 12% senior subordinated notes due 2009; $126.9 million under a 10% junior subordinated note payable to Motorola due 2011; $20.0 million loan facility with a Chinese bank; and, $23.3 million under a note payable to a Japanese bank due 2010.

ON Semiconductor's ability to service its long-term debt, to remain in compliance with the various covenants and restrictions contained in its credit agreements and to fund working capital, capital expenditures and business development efforts will depend on its ability to generate cash from operating activities which is subject to, among other things, its future operating performance as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may beyond its control.

If ON Semiconductor fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to ON Semiconductor. Although there can be no assurance, management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund ON Semiconductor's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2003. To the extent that results or events differ from ON Semiconductor's financial projections or business plans, the Company's liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates have been used by management in conjunction with the measurement of valuation allowances relating to receivables and inventories; reserves for customer incentives and restructuring charges; and, the fair values of financial instruments (including derivative financial instruments). Actual results could differ from these estimates.

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis), or market. The Company records provisions for slow moving inventories based upon a regular analysis of inventory levels on hand compared to historical and projected end user demand. Projected end user demand is generally based on sales during the prior twelve months.

These provisions can influence results from operations. For example, when demand for a given part falls, all or a portion of the related inventory is reserved, impacting cost of sales and gross profit. If demand recovers and the parts previously reserved are sold, a higher than normal margin will generally be recognized. General market conditions as well as the Company's design activities can cause certain of its products to become obsolete.

Property and Equipment

Property and equipment are recorded at cost and are depreciated over estimated useful lives of 3-20 years using accelerated and straight-line methods. Expenditures for maintenance and repairs are charged to operations in the year in which the expense is incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized.

The Company evaluates the recoverability of the carrying amount of its property, plant and equipment whenever events or changes in circumstances indicate that the related carrying amount of an asset may not be recoverable. Impairment is assessed when the undiscounted expected cash flows derived for an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in operating results. Judgment is used when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an impaired asset. The dynamic economic environment in which the Company operates and the resulting assumptions used to estimate future cash flows impact the outcome of these impairment tests.

Revenue Recognition

The Company generates revenue from the sales of its semiconductor products to original equipment manufacturers, distributors and electronic manufacturing service providers as well as to affiliated companies. The Company recognizes revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the customer net of provisions for related sales costs and allowances. Revenues generated from sales to affiliated companies are based on intercompany pricing agreements and recognized when title and risk of loss has passed to the affiliate.

Prior to January 1, 2001, the Company recognized revenue on all distributor sales when title passed to the distributor. Provisions were also recorded at that time for estimated sales returns from distributors as well as for other related sales costs and allowances. Effective January 1, 2001, the Company changed its revenue recognition policy with respect to distributor sales so that the related revenues are now deferred until the distributor resells the product to the end user. This change eliminated the need to provide for estimated sales returns from distributors. Title to products sold to distributors typically passes at the time of shipment by the Company so the

Company records accounts receivable for the amount of the transaction, reduces its inventory for the products shipped and defers the related margin in the consolidated balance sheet. The Company recognizes the related revenue and margin when the distributor sells the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

Research and Development Costs

Research and development costs are expensed as incurred.

Stock-Based Compensation

The Company accounts for employee stock options relating to the common stock of ON Semiconductor in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) and provides the pro forma disclosures required by SFAS No. 123 “Accounting for Stock Based Compensation” (“SFAS No. 123”). The Company measures compensation expense relating to non-employee stock awards in accordance with SFAS No. 123.

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company’s net income (loss) for the years ended December 31, 2002, 2001, and 2000 and the six months ended July 4, 2003 and June 28, 2002 would have been reduced (increased) to the pro forma amounts indicated below (in millions):

	Year Ended December 31,		October 27, 2000 (inception) through December 31, 2000	Six Months Ended	
	2002	2001		July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
Net income (loss), as reported	$ 21.9	$ (176.2)	$ 21.4	$ 31.6	$ 23.1
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2.3)	(1.9)	(1.1)	(2.3)	(2.6)
Pro forma net income (loss)	$ 19.6	$ (178.1)	$ 20.3	$ 29.3	$ 20.5

The fair value of each option grant has been estimated at the date of grant while the fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan has been estimated at the beginning of each of the respective offering periods, both using a Black-Scholes option-pricing model with the following weighted-average assumptions:

				Six Months Ended	
Employee Stock Options	**2002**	**2001**	**2000**	**July 4, 2003**	**June 28, 2002**
				(unaudited)	**(unaudited)**
Expected life (in years)	5	5	5	5	5
Risk-free interest rate	4.15%	4.83%	6.45%	3.03%	4.57%
Volatility	0.70	0.70	0.60	0.70	0.70

				Six Months Ended	
Employee Stock Purchase Plan	**2002**	**2001**	**2000**	**July 4, 2003**	**June 28, 2002**
				(unaudited)	**(unaudited)**
Expected life (in years)	0.25	0.25	0.33	0.25	0.25
Risk-free interest rate	1.71%	4.26%	6.20%	1.17%	1.76%
Volatility	0.70	0.70	0.60	0.70	0.70

The weighted-average estimated fair value of employee stock options granted during 2002, 2001 and 2000 was $1.93, $3.23 and $9.67 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during 2002, 2001 and 2000 was $0.62, $1.24 and $3.82, respectively.

The weighted-average estimated fair value of employee stock options granted during the first six months of 2003 and 2002 was $0.76 and $2.03 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during the first six months of 2003 and 2002 was $0.32 and $0.83, respectively.

Income Taxes

The Company is based in Bermuda, which does not levy taxes on income. Income taxes in the accompanying consolidated financial statements relate to the Company's wholly-owned subsidiaries operating outside of Bermuda.

Income taxes are accounted for using the asset and liability method and are determined on a separate return basis. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized.

In determining the amount of the valuation allowance, estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction are considered. If all or a portion of the remaining deferred tax assets will not be realized, the valuation allowance will be increased with a charge to income tax expense. Conversely, if the Company will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. In the fourth quarter of 2001, a valuation allowance was established for the majority of the Company's deferred tax assets. Additionally, throughout 2002, no incremental deferred tax benefits were recognized. The Company's ability to utilize its deferred tax assets and the continuing need for a related valuation allowance are monitored on an ongoing basis.

Foreign Currencies

Most of the Company's foreign subsidiaries deal primarily in U.S. dollars and as a result, utilize the dollar as their functional currency. For the translation of financial statements of these subsidiaries, assets and liabilities that are receivable or payable in cash are translated at current exchange rates while inventories and other non-monetary assets are translated at historical rates. Gains and losses resulting from the translation of such financial statements are included in the operating results, as are gains and losses incurred on foreign currency transactions. The Company's remaining foreign subsidiaries utilize the local currency as their functional currency. The assets and liabilities of these subsidiaries are translated at current exchange rates while revenues and expenses are translated at the average rates in effect for the period. The related translation gains and losses are included in accumulated other comprehensive income (loss) within stockholder's equity (deficit).

Defined Benefit Plans

The Company maintains pension plans covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increase for plan employees. All of these assumptions are based upon management's judgement, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact the future expense recognition and cash funding requirements of our pension plans.

Reclassifications

Certain amounts have been reclassified to conform with the current year presentation.

Related Party Transactions

The Company has extensive transactions and relationships with ON Semiconductor and its affiliates which include intercompany pricing agreements, an intellectual property royalty agreement and general and administrative and research and development cost sharing agreements. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Under this standard, asset retirement obligations will be recognized when incurred at their estimated fair value. In addition, the cost of the asset retirement obligation will be capitalized as a part of the assets' carrying valued and depreciated over the assets' remaining useful life. The Company will be required to adopt SFAS No. 143 effective January 1, 2003. The Company does not expect the implementation of SFAS No. 143 to have a material effect on its results of operations.

The Company adopted SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” effective January 1, 2002. SFAS No. 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company’s adoption of SFAS No. 144 did not impact its financial condition or results of operations.

In April 2002, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 145, “Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002”. SFAS No. 145 rescinds SFAS No. 4, “Reporting Gains and Losses from Extinguishment of Debt”, and an amendment of that Statement, SFAS No. 64, “Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements” and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the Accounting Principles Board (“APB”) Opinion No. 30, “Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions” criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB No. 30 for classification as an extraordinary item shall be reclassified. SFAS No. 145 also amends FASB Statement No. 13, “Accounting for Leases” and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company is required to adopt SFAS No. 145 effective January 1, 2003. The Company’s adoption of SFAS 145 did not impact its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (“EITF”) Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)”. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity’s commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment to FAS 123.” SFAS No. 148 provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in annual and interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for the Company’s fiscal year 2002. The interim disclosure requirements are effective for the first quarter of fiscal year 2003 and are included in Note 3, “Significant Accounting Policies.” The Company has no plans to change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45 (“FIN 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of

FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately and such disclosures have been included in Note 6 “Balance Sheet Information”. The Company’s adoption of FIN No. 45 did not impact its financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51”. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created to acquired prior to February 1, 2003, the provisions of FIN 46 must be applied to the first interim or annual period beginning after June 15, 2003. The Company’s adoption of FIN 46 did not impact its financial condition or results of operations.

Note 4: Accounting Change

Sales are made to distributors under agreements that allow certain rights of return and price protections on products that are not resold by such distributors. Prior to January 1, 2001, the Company recognized revenue on distributor sales when title passed to the distributor. Provisions were also recorded at that time for estimated sales returns from our distributors on these unsold products. Effective January 1, 2001, the Company changed its revenue recognition method on sales to distributors so that such revenues are recognized at the time the distributor sells the Company’s products to the end customer. Title to products sold to distributors typically passes at the time of shipment by the Company so the Company records accounts receivable for the amount of the transaction, reduces its inventory for the products shipped and defers the related margin in the consolidated balance sheet. The Company recognizes the related revenue and margin when the distributor sells the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days.

Management believes that this accounting change was to a preferable method because it better aligns reported results with, focuses the Company on, and allows investors to better understand end user demand for the products the Company sells through distribution. Additionally, the timing of revenue recognition is no longer influenced by the distributor’s stocking decisions. This revenue recognition policy and manner of presentation is commonly used in the semiconductor industry.

The impact of the accounting change for periods prior to 2001 was a charge of $81.5 million and is reflected as the cumulative effect of change in accounting principle in the Company’s consolidated statement of operations and comprehensive loss for 2001. The accounting change resulted in an increase in revenues of $55.7 million and a reduction in net loss of $29.5 million for the year ended December 31, 2001.

The estimated pro forma effects of the accounting change for the period from October 27, 2000 (inception) through December 31, 2000 are as follows (in millions):

As reported:	
Revenues	$308.5
Net income	21.4
Pro forma effects of reflecting the accounting change applied retroactively:	
Revenues	$300.1
Net income	18.3

Note 5: Restructuring, Asset Impairments and Other

The activity related to the Company's restructuring, asset impairments and other is as follows (in millions):

	Reserve Balance at 12/31/2000	2001 Charges	2001 Usage	Adjustments	Reserve Balance at 12/31/2001	2002 Charges	2002 Usage	2002 Adjustments	Reserve Balance at 12/31/2002
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
June 2002									
Cash employee separation charges	—	—	—	—	—	0.6	(0.2)	—	0.4
Non-cash fixed asset write-offs	—	—	—	—	—	0.2	(0.2)	—	—
June 2002 Restructuring reserve balance	—				—				0.4
March 2002									
Cash employee separation charges	—	—	—	—	—	5.3	(2.7)	0.3	2.9
March 2002 Restructuring reserve balance	—				—				2.9
December 2001									
Cash employee separation charges	—	1.1	(0.3)	—	0.8	—	(0.8)	—	—
Non-cash fixed asset write-offs	—	1.3	(1.3)	—	—	—	—	—	—
December 2001 Restructuring reserve balance	—				0.8				—
June 2001									
Cash employee separation charges	—	4.8	(4.7)	(0.1)	—	—	—	—	—
Cash exit costs	—	1.3	—	—	1.3	—	(0.9)	(0.4)	—
Non-cash fixed asset write-offs	—	1.4	(1.4)	—	—	—	—	—	—
Non-cash stock compensation and pension charges	—	0.5	(0.5)	—	—	—	—	—	—
June 2001 Restructuring reserve balance	—				1.3				—
March 2001									
Cash employee separation charges	—	5.7	(5.4)	—	0.3	—	(0.3)	—	—
March 2001 Restructuring reserve balance	—				0.3				—
	$ —	$ 16.1	$ (13.6)	$ (0.1)	$ 2.4	$ 6.1	$ (5.1)	$ (0.1)	$ 3.3

The following table reconciles the restructuring, asset impairments and other activity to the "Restructuring, asset impairments and other" caption on the statement of operations for the six months ended July 4, 2003 and June 28, 2002 (in millions):

	Six Months Ended July 4, 2003
2003 restructuring, asset impairments and other	$ 1.4
Plus: Additional charges related to employee separation costs (March 2002)	0.3
Restructuring, asset impairments and other	$ 1.7

	Six Months Ended June 28, 2002
2002 restructuring, asset impairments and other	$ 5.6
Less: Reserves released during the period	(0.1)
Restructuring, asset impairments and other	$ 5.5

The following table reconciles the restructuring activity in the tables above to the "Restructuring and asset impairments" caption on the Statements of Operations for the years ended December 31, 2002 and 2001, respectively (in millions):

	Year Ended December 31, 2002
2002 restructuring charges and asset impairments	$ 6.1
Less: Reserves released during the period	(0.1)
Restructuring and asset impairments	$ 6.0

	Year Ended December 31, 2001
2001 restructuring charges and asset impairments	$ 16.1
Less: Reserves released during the period	(0.1)
Restructuring and asset impairments	$ 16.0

June 2003 Restructuring and Asset Impairments

In June 2003, the Company recorded charges totaling $1.7 million associated with its restructuring programs. The charges include $1.2 million of lease and contract termination costs, $0.2 million of asset impairments and an additional $0.3 million associated with employee separation costs included in March 2002 restructuring program.

The lease and contract termination costs relate to the exit of certain sales and administrative offices in Bermuda and Europe and the termination of other purchase and supply agreements.

The Company identified certain buildings, machinery, software and equipment that would no longer be used internally due to the continued consolidation of general and administrative functions and recorded an asset impairment charge of $0.2 million to write-down the remaining carrying value of these assets to their net realizable value.

June 2002 Restructuring and Asset Impairments

In June 2002, the Company recorded charges totaling $0.8 million for costs associated with its restructuring activities including $0.6 million to cover employee separation costs associated with the termination of two employees and $0.2 million for equipment write-offs that were charged directly against the related assets. The employee separation costs reflected further reductions in general and administrative staffing levels. As of July 4, 2003, all impacted employees had been terminated.

March 2002 Restructuring

In March 2002, the Company recorded a $5.3 million charge to cover employee separation costs relating to the termination of 62 employees. Approximately $5.0 million of this charge is attributable to employee terminations resulting from the Company's decision to relocate its European administrative functions from Toulouse, France to Roznov, Czech Republic and Piestany, Slovakia. The relocation of these functions is currently expected to be completed by June 30, 2003. The remaining $0.3 million relates to reductions in selling, general and administrative functions primarily in the United Kingdom. The Company recorded an additional $0.3 in employee separation costs relating to the relocation of the administrative functions in Toulouse, France during the fourth quarter of 2002 as a result of its reevaluation of remaining costs to be incurred. As of July 4, 2003, 15 employees remain to be terminated under this program and the Company currently expects that the remaining terminations will be completed by December 2003. As of July 4, 2003 the remaining liability relating to this restructuring was $1.0 million.

December 2001 Restructuring and Asset Impairments

In December 2001, the Company recorded charges totaling $2.4 million for costs associated with its worldwide restructuring programs. The charges included $1.1 million to cover employee separation costs associated with the terminations of 5 employees as well as $1.3 million for property and equipment write-offs that were charged directly against the related assets.

The employee separation costs reflected reductions in selling, general and administrative staffing levels. As of December 31, 2002, all impacted employees had been terminated.

The $1.3 million charge related the write-off of certain property and equipment located in France and Slovakia that would no longer be utilized as a result of the Company's restructuring activities.

June 2001 Restructuring and Asset Impairments

In June 2001, the Company recorded charges totaling $8.0 million for costs associated with its worldwide restructuring programs. These programs were in response to rapidly changing economic circumstances requiring the Company to rationalize its operations to meet declining customer demand. The charge included $4.8 million to cover employee separation costs associated with the termination of approximately 175 employees and $0.5 million for additional pension charges related to the terminated employees. (The additional pension charge is reflected in the Company's accrued pension liability in the consolidated balance sheet.) As of December 31, 2002, all of the employees had been terminated under this restructuring program.

The Company identified certain manufacturing equipment that would no longer be used internally and recorded a charge of $1.4 million to write-off the assets.

The June 2001 charge also included $1.3 million to cover certain exit costs relating to contract terminations. During 2002, the Company recorded a $0.4 adjustment to release reserves associated with the June 2001 restructuring programs due to the Company's analysis of estimated costs to complete those programs. As of December 31, 2002, all exit activities have been completed.

March 2001 Restructuring

In March 2001, the Company recorded charges totaling $5.7 million for costs associated with its worldwide restructuring programs. The charges of $5.7 million cover employee separation costs associated with the termination of approximately 80 employees. The employee separation costs reflected reductions in selling, general and administrative staffing. As of December 31, 2002, all of the employees had been terminated under this restructuring program.

Note 6: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31, 2002	December 31, 2001	July 4, 2003 (unaudited)
Receivables, net:			
Accounts receivable	$ 73.6	$ 69.2	$ 88.1
Less: Allowance for doubtful accounts	(0.6)	(0.7)	(0.6)
	$ 73.0	$ 68.5	$ 87.5
Inventories, net:			
Raw materials	$ 3.7	$ 5.2	$ 7.0
Work in process	78.9	131.4	86.3
Finished goods	67.2	59.3	71.5
Total inventories	149.8	195.9	164.8
Less: Inventory reserves	(41.2)	(43.6)	(37.6)
	$108.6	$152.3	$ 127.2
Property, plant and equipment, net:			
Buildings	$ 0.6	$ 0.8	$ 0.6
Machinery and equipment	31.3	41.4	33.8
Total property, plant and equipment	31.9	42.2	34.4
Less: Accumulated depreciation	(23.1)	(27.1)	(26.3)
	$ 8.8	$ 15.1	$ 8.1
Accrued expenses:			
Accrued payroll	$ 5.9	$ 5.5	$ 8.5
Sales related reserves	3.1	1.8	5.8
Restructuring reserve	3.3	2.4	1.4
Other	8.9	1.5	8.6
	$ 21.2	$ 11.2	$ 24.3
Other comprehensive income:			
Foreign currency translation adjustments	$ 0.5	$ 0.5	$ 0.5

Depreciation expense totaled $4.7 million and $7.1 million for the years ended December 31, 2002 and 2001 and $0.5 million for the period from October 27, 2000 (inception) through December 31, 2000.

The activity related to the Company's inventory reserves and warranty reserves for the period from October 27, 2000 (inception) through December 31, 2000 and for the years ended December 31, 2001 and 2002 follows:

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions/ Writeoffs	Balance at End of Period
Inventory reserves					
Period from October 27, 2000 (inception) through December 31, 2000	$ —	$ 4.7	$ 12.6(1)	$ —	$ 17.3
Year ended December 31, 2001	$ 17.3	$ 42.4	$ —	$ 16.1	$ 43.6
Year ended December 31, 2002	$ 43.6	$ 13.2	$ —	$ 15.6	$ 41.2
Warranty reserves					
Period from October 27, 2000 (inception) through December 31, 2000	$ —	$ 1.1	$ 0.9(1)	$ 0.9	$ 1.1
Year ended December 31, 2001	$ 1.1	$ —	$ —	$ 0.4	$ 0.7
Year ended December 31, 2002	$ 0.7	$ 0.1	$ —	$ 0.1	$ 0.7
Six months ended July 4, 2003 (unaudited)	$ 0.7	$ —	$ —	$ —	$ 0.7

(1) Represents reserves recorded at the Company's inception on October 27, 2000.

Note 7: Income Taxes

Geographic sources of income (loss) before income taxes and cumulative effect of accounting change are as follows (in millions):

	Year Ended December 31,		October 27, 2000 (inception) through December 31, 2000
	2002	2001	
Bermuda	$18.4	$(93.3)	$ 32.3
Other foreign countries	4.8	(2.6)	(11.6)
	$23.2	$(95.9)	$ 20.7

The provision (benefit) for income taxes for the years ended December 31, 2002 and 2001 and for the period from October 27, 2000 (inception) through December 31, 2000, all of which relates to operations outside of Bermuda, is as follows (in millions):

	Year Ended December 31, 2002	Year Ended December 31, 2001	October 27, 2000 (inception) through December 31, 2000
Current	$(0.2)	$(2.1)	$ 2.9
Deferred	1.5	0.9	(3.6)
	$ 1.3	$(1.2)	$ (0.7)

A reconciliation of the Bermuda federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31, 2002	Year Ended December 31, 2001	October 27, 2000 (inception) through December 31, 2000
Bermuda federal statutory rate	— %	— %	— %
Increase (decrease) resulting from:			
Foreign rate differential	(5.0)	(2.0)	(3.4)
Change in valuation allowance	10.6	0.7	—
	5.6%	(1.3)%	(3.4)%

Deferred tax assets are as follows (in millions):

	December 31, 2002	December 31, 2001
Tax-deductible goodwill	$ 1.3	$ 1.7
Reserves and accruals	1.5	1.9
Inventories	0.1	0.1
Net operating loss and tax credit carryforwards	4.2	2.3
Other	0.1	—
	7.2	6.0
Valuation allowance	(3.1)	(0.6)
Net deferred tax asset	$ 4.1	$ 5.4

A valuation allowance has been recorded against the portion of the Company's deferred tax assets that management believes is more likely than not that the related tax benefits will not be realized.

As of December 31, 2002 and 2001, the Company's foreign net operating loss carryforwards were $13.0 million and $9.0 million, respectively. If not utilized, these net operating losses will expire in varying amounts through 2007.

Income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries (approximately $68.5 million at December 31, 2002) over which it has sufficient influence to control the distribution of such earnings and has determined that such earnings have been reinvested indefinitely. These earnings could become subject to additional tax if they are remitted as dividends, if foreign earnings are loaned to any of the Company's subsidiaries, or it the Company sells its investment in such subsidiaries. The Company estimates that repatriation of these foreign earnings would generate additional foreign withholding taxes of $5.1 million.

Note 8: Related Party Transactions

At December 31, 2002 and 2001, the total aggregate amount outstanding under various loan agreements between the Company and its Parent was $160.3 million and $367.9 million, respectively. The loan agreements expire on December 31, 2004, bear interest at a weighted average rate of 4.97% and are unsecured.

The Company consigns inventory to affiliates to perform all semiconductor manufacturing activities. The Company is charged for these activities based on intercompany pricing agreements with the respective affiliates and records the related costs in inventory. Finished goods are either sold to third-party customers outside the United States or to affiliates. Sales to affiliates are also based on intercompany transfer pricing agreements.

SCI LLC also incurs certain general and administrative and research and development costs that directly benefit the Company. General and administrative expenses that directly benefit the Company are specifically identified by management and charged to the Company by SCI LLC. Research and development costs are allocated and charged based on the percent of the Company's third-party sales to total ON Semiconductor third-party sales. Additionally, SCI LLC charges the Company a royalty fee for the use of ON Semiconductor's intellectual property. The royalty fee is a minimum of $10.0 million annually and is based on a percentage of the Company's third-party sales, such percentage determined based on the overall annual gross margin percentage of ON Semiconductor. The allocations utilized in arriving at the amounts reflected in the accompanying consolidated financial statements are based on assumptions that management believes are reasonable in the circumstances; however, such allocations are not necessarily indicative of the costs that would have been incurred by the Company had it operated as a stand-alone entity.

Related party activity between the Company and its affiliates is as follows (in millions):

	Year Ended December 31, 2002	Year Ended December 31, 2001	October 27, 2000 (inception) through December 31, 2000	Six Months Ended July 4, 2003	Six Months Ended June 28, 2002
				(unaudited)	(unaudited)
Purchases of manufacturing services from affiliates	$ 719.4	$ 814.0	$ 447.6	$ 389.7	$ 340.8
Expense allocations from SCI LLC:					
General and administrative expenses:					
Royalties	$ 10.0	$ 10.0	$ 8.5	$ 5.0	$ 5.0
Other	22.9	22.0	3.3	10.0	12.5
	$ 32.9	$ 32.0	$ 11.8	$ 15.0	$ 17.5
Research and development	$ 45.0	$ 59.6	$ 2.3	$ 28.1	$ 22.2

Note 9: Employee Benefit Plans

Defined Benefit Plans

Certain of the Company’s subsidiaries provide retirement plans for substantially all of their employees. The plans conform to local practice in terms of providing minimum benefits mandated by law, collective agreements or customary practice. Benefits under these pension plans are valued using the projected unit credit cost method.

The following is a summary of the status of the pension plans and the net periodic pension cost (dollars in millions):

	December 31, 2002	December 31, 2001
Assumptions used to value the Company's pension obligations are as follows:		
Rate of compensation increase	3.00%	3.00%
Discount rate	5.50%	5.50%
Change in Benefit Obligation:		
Benefit obligation, beginning of period	$ 2.4	$ 2.6
Service cost	0.1	0.2
Interest cost	0.1	0.1
Curtailment gain	(0.3)	—
Actuarial (gain) loss	0.3	(0.4)
Translation (gain) loss	0.4	(0.1)
Benefit obligation, end of period	$ 3.0	$ 2.4
Change in Plan Assets:		
Fair value, beginning of period	$ 0.4	$ 0.3
Actual return on plan assets	0.1	0.1
Fair value, end of period	$ 0.5	$ 0.4
Balances, end of period:		
Pension benefit obligation	$ (3.0)	$ (2.4)
Fair value of plan assets	0.5	0.4
Funded status	(2.5)	(2.0)
Unrecognized net actuarial gain	(0.1)	(0.4)
Unrecognized prior service cost	0.4	0.5
Net liability recognized, net of period	$ (2.2)	$ (1.9)
The net amounts recognized in the consolidated balance sheet consist of the following:		
Accrued expenses	$ (0.4)	$ —
Other long-term liabilities	(1.8)	(1.9)
Net liability recognized, net of period	$ (2.2)	$ (1.9)

	December 31, 2002	December 31, 2001	October 27, 2000 (inception through December 31, 2000
Assumptions used to determine pension costs are as follows:			
Discount rate	5.50%	6.00%	6.00%
Expected return on assets	5.75%	6.00%	6.00%
Rate of compensation increase	3.00%	3.00%	3.00%
Components of net periodic pension cost:			
Service cost	$ 0.1	$ 0.2	$ —
Interest cost	0.1	0.1	—
Expected return on assets	—	—	—
Amortization of prior service cost	0.1	0.1	—
Curtailment gain	(0.3)	—	—
Net periodic pension cost	$ —	$ 0.4	$ —

In 2003, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, the Company will no longer defer actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company’s annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred. This change did not have a material impact on the Company.

Defined Contribution Plans

Certain subsidiaries have defined contribution plans in which eligible employees participate. The Company recognized compensation expense of $0.1 million, $0.3 million and $0.1 million for the years ended December 31, 2002 and 2001 and for the period from October 27, 2000 (inception) through December 31, 2000, respectively, relating to these plans.

Note 10: Stock Options

Certain employees of the Company participate in ON Semiconductor stock option plans.

Generally, the options granted under these plans vest over a period of four years. Upon the termination of an option holder’s employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability).

Information with respect to the activity of the stock option plans as it relates to the employees of the Company is as follows (in millions, except per share data):

	2002		2001		2000	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	2.3	$ 6.72	1.5	$ 7.57	1.0	1.50
Grants	0.7	3.16	1.1	5.22	0.6	16.75
Exercises	(0.1)	1.50	(0.1)	1.50	(0.1)	1.50
Cancellations	(0.3)	9.57	(0.2)	6.62	—	—
Outstanding at end of year	2.6	$ 5.53	2.3	$ 6.72	1.5	$ 7.57
Exercisable at end of year	0.9	$ 5.81	0.5	$ 6.11	0.2	$ 3.77
Weighted average fair value of options granted during the period		$ 1.93		$ 3.23		$ 9.67

The following tables summarize options outstanding and options exercisable at December 31, 2002:

	Outstanding Options		
Range of Exercise Prices	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
$1.25–$2.71	0.8	7.04	$ 1.58
$3.22–$6.95	1.4	8.65	4.30
$9.03–$20.25	0.4	7.42	16.41
Totals	2.6		$ 5.53

	Exercisable Options		
Range of Exercise Prices	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
$1.25–$2.71	0.5	6.69	$ 1.50
$3.22–$6.95	0.2	8.37	4.89
$9.03–$20.25	0.2	7.42	16.42
Totals	0.9		$ 5.81

These options will expire if not exercised at specific dates through November 2012.

Eligible employees also participate in ON Semiconductor’s 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company’s full-time employees has the right to elect to have up to 10% of their eligible earnings applied towards the purchase of shares of ON Semiconductor common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. During each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to $6,250 divided by the fair market value of the stock on the first day of the offering period. During 2002, 2001 and 2000, employees purchased approximately 122,000, 188,000 and 104,000 shares under the plan.

Note 11: Foreign Currency Exchange Contracts

The Company's foreign currency exposures are included in ON Semiconductor's worldwide foreign currency exposure management program. ON Semiconductor aggregates the forecasted foreign currency exposures for each of its subsidiaries on a monthly basis and enters into forward currency contracts in order to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. Prior to January 1, 2001, the Company entered into its own foreign currency contracts. The Company's net foreign currency transaction gains (losses) included in the accompanying consolidated statement of operations for the years ended December 31, 2002 and 2001 and for the period October 27, 2000 (inception) through December 31, 2000 are $2.4 million, $1.3 million and $(0.1) million, respectively.

Note 12: Commitments and Contingencies

Operating Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of December 31, 2002 (in millions):

2003	$3.5
2004	2.3
2005	1.4
2006	0.9
2007	0.3
Thereafter	—
	$8.4

Legal Matters

ON Semiconductor is currently involved in a variety of legal matters that arose in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters will have a material adverse effect on ON Semiconductor's financial condition, results of operations or cash flows.

Common Stock Collateral Pledge

On May 6, 2002, ON Semiconductor and SCI LLC (collectively, the "Issuers") issued $300 million principal amount of second lien notes in a private offering that was exempt from registration requirements of the U.S. Federal Securities laws. The notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by ON Semiconductor's domestic restricted subsidiaries that are guarantors under its senior subordinated notes. In addition, the notes and guarantees are secured on a second priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its foreign subsidiaries, which includes the Company and certain of its affiliates, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

On March 3, 2003, the Issuers issued $200.0 million principal amount of first-lien senior secured notes due 2010 (the "First-Lien Notes") in a private offering that was exempt from registration requirements of the U.S. Federal Securities laws. The obligations under the First-Lien Notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor Corporation (other than SCI LLC). The First-Lien Notes and guarantees are secured on a first-priority basis the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its foreign subsidiaries, which includes the Company and certain of its affiliates, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

Note 13: Fair Value of Financial Instruments

The Company uses the following methods to estimate the fair values of its financial instruments:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short-term maturities of such instruments.

Notes Payable to Parent

Due to the related party nature of the notes payable to Parent, it was not practicable to estimate their fair values due to the inability to obtain quoted market prices or determine current market rate for similar instruments. At December 31, 2002 and 2001, the carrying value of the notes payable to Parent was $160.3 million and $367.9 million, respectively.

Note 14: Supplemental Disclosure of Cash Flow Information

Cash payments for interest and income taxes for the years ended December 31, 2002 and 2001 and for the period from October 27, 2000 (inception) through December 31, 2000 are as follows (in millions):

	2002	2001	2000
Cash (received) paid for:			
Interest	$14.2	$ 13.7	$0.4
Income taxes	3.2	(10.4)	0.7

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2002 and 2001 and for
the Years Ended December 31, 2002, 2001 and 2000

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and
Stockholder of SCG Malaysia Holdings Sdn. Bhd.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholder's equity and cash flows present fairly, in all material respects, the financial position of SCG Malaysia Holdings Sdn. Bhd. and its subsidiaries (an indirect wholly-owned subsidiary of ON Semiconductor Corporation) at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company has extensive transactions and relationships with ON Semiconductor Corporation and its affiliates. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona
February 5, 2003, except for
the third paragraph of
Note 10 for which the date is
March 3, 2003

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED BALANCE SHEET

	December 31, 2002	December 31, 2001	July 4, 2003 (unaudited)
	(In millions, except share data)		
ASSETS			
Cash and cash equivalents	$ 10.7	$ 1.4	$ 10.7
Receivables, net	—	0.6	—
Inventories, net	0.8	0.4	1.0
Other current assets	3.5	5.2	2.4
Due from affiliates	17.0	12.3	19.0
Income taxes receivable	10.4	7.1	8.7
Deferred income taxes	0.6	1.2	0.9
Total current assets	43.0	28.2	42.7
Property, plant and equipment, net	103.1	131.2	88.0
Total assets	$ 146.1	$ 159.4	$ 130.7
LIABILITIES AND STOCKHOLDER’S EQUITY			
Accounts payable	$ 6.1	$ 17.4	$ 8.4
Accrued expenses	1.6	3.8	2.4
Total current liabilities	7.7	21.2	10.8
Other long-term liabilities	4.4	4.1	4.7
Notes payable to affiliate	89.4	89.4	77.4
Deferred income taxes	1.6	0.7	0.6
Total liabilities	103.1	115.4	93.5
Commitments and contingencies (See Note 10)	—	—	—
Common stock (200,000,000 authorized, 147,517,167 shares issued and outstanding)	38.8	38.8	38.8
Additional paid-in capital	11.9	10.0	12.9
Accumulated deficit	(7.7)	(4.8)	(14.5)
Total stockholder’s equity	43.0	44.0	37.2
Total liabilities and stockholder’s equity	$ 146.1	$ 159.4	$ 130.7

See accompanying notes to consolidated financial statements.

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,			Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
			(In millions)		
Sales to affiliates	$ 89.1	$ 99.1	$ 359.8	$ 46.2	$ 45.4
Cost of sales	78.7	86.6	330.9	41.6	37.6
Gross profit	10.4	12.5	28.9	4.6	7.8
Operating expenses:					
General and administrative	8.0	8.8	10.3	4.1	4.0
Restructuring, asset impairments and other	(1.9)	9.4	—	4.2	(1.7)
Total operating expenses	6.1	18.2	10.3	8.3	2.3
Operating income (loss)	4.3	(5.7)	18.6	(3.7)	5.5
Interest expense, net	(8.2)	(8.4)	(10.3)	(3.9)	(4.1)
Income (loss) before income taxes	(3.9)	(14.1)	8.3	(7.6)	1.4
Income tax benefit	1.0	3.9	6.0	0.8	(1.9)
Net income (loss)	$ (2.9)	$ (10.2)	$ 14.3	$ (6.8)	$ (0.5)

See accompanying notes to consolidated financial statements.

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED STATEMENT OF STOCKHOLDER’S EQUITY

	Common Stock (Shares)	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
		(In millions, except share data)			
Balance at December 31, 1999	147,517,167	$ 38.8	$ 1.8	$ (8.9)	$ 31.7
Contributed services by Parent		—	5.4	—	5.4
Comprehensive income:					
Net income		—	—	14.3	14.3
Comprehensive income				14.3	14.3
Balance at December 31, 2000	147,517,167	38.8	7.2	5.4	51.4
Contributed services by Parent		—	2.8	—	2.8
Comprehensive income (loss):					
Net loss		—	—	(10.2)	(10.2)
Comprehensive loss				(10.2)	(10.2)
Balance at December 31, 2001	147,517,167	38.8	10.0	(4.8)	44.0
Contributed services by Parent		—	1.9	—	1.9
Comprehensive income (loss):					
Net loss		—	—	(2.9)	(2.9)
Comprehensive loss				(2.9)	(2.9)
Balance at December 31, 2002	147,517,167	38.8	11.9	(7.7)	43.0
Contributed services by Parent (unaudited)		—	1.0		1.0
Comprehensive income (loss):					
Net loss (unaudited)		—		(6.8)	(6.8)
Comprehensive loss (unaudited)				(6.8)	(6.8)
Balance at July 4, 2003 (unaudited)	147,517,167	$ 38.8	$ 12.9	$ (14.5)	$ 37.2

See accompanying notes to consolidated financial statements.

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,			Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
			(In millions)		
Cash flows from operating activities:					
Net income (loss)	$ (2.9)	$ (10.2)	$ 14.3	$ (6.8)	$ (0.5)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	31.9	32.7	28.9	15.1	15.3
Non-cash impairment of property, plant and equipment	—	0.9	—	4.2	—
Non-cash support costs provided by Parent	1.9	2.8	5.4	1.0	0.9
Deferred income taxes	1.5	(3.1)	(4.9)	(1.3)	1.6
Other	0.2	5.6	0.2	—	0.1
Changes in assets and liabilities:					
Receivables	0.6	(0.4)	1.6	—	0.5
Inventories	(0.4)	4.0	24.6	(0.2)	(0.3)
Other assets	1.7	1.4	(4.7)	1.1	1.3
Due from affiliates	(0.7)	(13.6)	7.0	(2.0)	2.5
Accounts payable	(11.3)	3.0	3.4	2.3	(6.5)
Accrued expenses	(2.2)	0.4	1.1	0.8	(0.3)
Income taxes receivable	(3.3)	(3.0)	(4.1)	1.7	(0.6)
Other long-term liabilities	0.3	(1.0)	1.5	0.3	0.1
Net cash provided by operating activities	17.3	19.5	74.3	16.2	14.1
Cash flows from investing activities:					
Purchases of property, plant and equipment	(8.1)	(47.4)	(49.5)	(4.2)	(5.5)
Proceeds from sales of property, plant and equipment	0.1	1.2	13.0	—	—
Net cash used in investing activities	(8.0)	(46.2)	(36.5)	(4.2)	(5.5)
Cash flows from financing activities:					
Repayment of borrowings to affiliate	—	(25.0)	(22.2)	(12.0)	—
Net cash provided by (used in) financing activities	—	(25.0)	(22.2)	(12.0)	—
Net increase (decrease) in cash and cash equivalents	9.3	(51.7)	15.6	—	8.6
Cash and cash equivalents, beginning of period	1.4	53.1	37.5	10.7	1.4
Cash and cash equivalents, end of period	$ 10.7	$ 1.4	$ 53.1	$ 10.7	$ 10.0

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

SCG Malaysia Holdings Sdn. Bhd. (the "Company" or "SCG Malaysia") is a wholly-owned subsidiary of Semiconductor Components Industries, LLC ("SCI LLC" or "Parent"), which is a wholly-owned subsidiary of ON Semiconductor Corporation ("ON Semiconductor".) The Company and its wholly-owned subsidiary, SCG Industries Malaysia Sdn. Bhd., are located in Seremban, Malaysia and are primarily engaged in the manufacture of semiconductor products. Formerly known as the Semiconductor Components Group of the Semiconductor Products Sector of Motorola, Inc., ON Semiconductor was a wholly-owned subsidiary of Motorola Inc. ("Motorola") prior to its August 4, 1999 recapitalization (the "Recapitalization"). ON Semiconductor continues to hold, through direct and indirect subsidiaries, substantially all the assets and operations of the Semiconductor Components Group of Motorola's Semiconductor Products Sector. The Company was capitalized by the issuance of 147,517,167 shares of common stock to SCI LLC in connection with the Recapitalization.

On August 4, 1999, ON Semiconductor was recapitalized and certain related transactions were effected pursuant to an agreement among ON Semiconductor, the Company, Motorola and affiliates of Texas Pacific Group ("TPG"). As a result of the Recapitalization, an affiliate of TPG owned approximately 91% and Motorola owned approximately 9% of the outstanding common stock of ON Semiconductor. In addition, as part of these transactions, TPG received 1,500 shares and Motorola received 590 shares of ON Semiconductor's mandatorily redeemable preferred stock with a liquidation value of $209 million plus accrued and unpaid dividends. Motorola also received a $91 million junior subordinated note issued by SCI LLC. Cash payments to Motorola in connection with the Recapitalization were financed through equity investments by affiliates of TPG totaling $337.5 million, borrowings totaling $740.5 million under SCI LLC's $875 million senior bank facilities and the issuance of $400 million of 12% senior subordinated notes due August 2009. Because TPG's affiliate did not acquire substantially all of ON Semiconductor's common stock, the basis of ON Semiconductor's assets and liabilities for financial reporting purposes was not impacted by the Recapitalization.

Prior to November 1, 2000, the Company produced a portion of its die requirements internally and purchased its remaining requirements from an affiliated company. The Company then converted such die into semiconductor products and then sold such products to an affiliated company. Effective November 1, 2000, the Company sold its existing inventories at a cost of $20.5 million, excluding wafers, to another affiliated company and now performs assembly and test manufacturing services for that affiliated company on a consignment basis.

SCI LLC incurs certain manufacturing and information technology support costs that directly benefit its various manufacturing affiliates including the Company. Although such costs are not recorded in the Company's local statutory accounts and are not deductible for local tax purposes, they have been allocated to the Company and reflected in the accompanying consolidated financial statements as cost of sales with an offsetting capital contribution from SCI LLC. The allocations utilized in arriving at the amounts reflected in the accompanying consolidated financial statements are based on assumptions that management believes are reasonable in the circumstances; however, such allocations are not necessarily indicative of the costs that would have been incurred by the Company had it operated as a stand-alone entity.

The accompanying unaudited financial statements as of July 4, 2003 and for the six months ended June 28, 2002 and July 4, 2003, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information and on the same basis of presentation as the audited financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements. In the opinion of the Company's management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited.

Note 2: Liquidity

During the six months ended July 4, 2003, ON Semiconductor incurred a net loss of $108.0 million, compared to a net loss of $81.8 million, for the six months ended June 28, 2002. ON Semiconductor's net loss included restructuring, asset impairments and other charges of $34.6 million for the six months ended July 4, 2003 as compared to $10.2 million for the six months ended June 28, 2002. ON Semiconductor's net loss for the first six months of 2003 also included a charge of $21.5 million relating to a change in accounting principle. Net cash provided by operating activities was $16.7 million in the six months ended July 4, 2003, as compared to net cash provided by operating activities of $12.5 million for the six months ended June 28, 2002.

At July 4, 2003, ON Semiconductor had $181.2 million in cash and cash equivalents, net working capital of $196.5 million, term or revolving debt of $1,441.6 million and a stockholders' deficit of $750.7 million. ON Semiconductor's long-term debt includes $520.7 million under its senior bank facilities; $292.0 million (net of discount) of its 13% second lien senior secured notes due 2008; $191.2 million (net of discount) of its 12% first lien senior secured notes due 2010; $260.0 million of its 12% senior subordinated notes due 2009; $133.4 million under a 10% junior subordinated note payable to Motorola due 2011; $23.4 million under a note payable to a Japanese bank due 2010; $20.0 million under a loan facility with a Chinese bank and $0.9 million under a capital lease obligation. ON Semiconductor was in compliance with all of the covenants contained in its various debt agreements as of July 4, 2003 and expects to remain in compliance over the next twelve months.

During the year ended December 31, 2002, ON Semiconductor incurred a net loss of $141.9 million compared to a net loss of $831.4 million in 2001 and net income of $71.1 million in 2000. ON Semiconductor's net results included restructuring and other of $27.7 million, $150.4 million and $4.8 million in 2002, 2001 and 2000, respectively, as well as interest expense of $149.5 million, $139.6 million and $135.3 million, respectively. ON Semiconductor's operating activities provided cash of $46.4 million in 2002 and $312.2 million in 2000 and used cash of $116.4 million in 2001.

At December 31, 2002, ON Semiconductor had $190.4 million in cash and cash equivalents, net working capital of $195.2 million, term or revolving debt of $1,423.2 million and a stockholders' deficit of $662.1 million. ON Semiconductor's long-term debt includes $701.6 million under its senior bank facilities; $291.4 million (net of discount) of its 12% senior secured notes due 2008; $260.0 million of its 12% senior subordinated notes due 2009; $126.9 million under a 10% junior subordinated note payable to Motorola due 2011; $20.0 million loan facility with a Chinese bank; and, $23.3 million under a note payable to a Japanese bank due 2010.

ON Semiconductor's ability to service its long-term debt, to remain in compliance with the various covenants and restrictions contained in its credit agreements and to fund working capital, capital expenditures and business development efforts will depend on its ability to generate cash from operating activities which is subject to, among other things, its future operating performance as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may be beyond its control.

If ON Semiconductor fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to ON Semiconductor. Although there can be no assurance, management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund ON Semiconductor’s operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2003. To the extent that results or events differ from ON Semiconductor’s financial projections or business plans, the Company’s liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates have been used by management in conjunction with the measurement of valuation allowances relating to receivables and inventories; reserves for customer incentives, restructuring charges and pension obligations; and, the fair values of financial instruments (including derivative financial instruments). Actual results could differ from these estimates.

Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories consist of raw materials and are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis), or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated over useful lives of 30-40 years for buildings and 3-20 years for machinery and equipment using straight-line and accelerated methods. Expenditures for maintenance and repairs are charged to operations in the year in which the expense is incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized.

The Company evaluates the recoverability of the carrying amount of its property, plant and equipment whenever events or changes in circumstances indicate that the related carrying amount of an asset may not be recoverable. Impairment is assessed when the undiscounted expected cash flows derived for an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in operating results. Judgment is used when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an impaired asset. The dynamic economic environment in which the Company operates and the resulting assumptions used to estimate future cash flows impact the outcome of these impairment tests.

Revenue Recognition

Prior to November 1, 2000, the Company recognized revenue when semiconductor products were delivered to the affiliated company. These revenues included the cost of raw materials inventory purchased from third-parties and affiliates plus a markup based on an intercompany transfer pricing agreement. Effective November 1, 2000, the Company recognizes revenue when assembly and test services are completed on inventory consigned in from affiliates and the related products are delivered to the affiliated company. Revenues include the cost of wafers purchased from third-parties and the assembly and test services performed plus a markup based on an intercompany transfer pricing agreement.

Stock-Based Compensation

The Company accounts for employee stock options relating to the common stock of ON Semiconductor in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and provides the pro forma disclosures required by SFAS No. 123 "Accounting for Stock Based Compensation" ("SFAS No. 123"). The Company measures compensation expense relating to non-employee stock awards in accordance with SFAS No. 123.

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net income (loss) for the years ended December 31, 2002, 2001, and 2000 and the six months ended July 4, 2003 and June 28, 2002 would have been reduced (increased) to the pro forma amounts indicated below (in millions):

	Year Ended December 31,			Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
Net income (loss), as reported	$(2.9)	$(10.2)	$14.3	$ (6.8)	$ (0.5)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(0.7)	(0.7)	(0.6)	(0.2)	(0.4)
Pro forma net income (loss)	$(3.6)	$(10.9)	$13.7	$ (7.0)	$ (0.9)

The fair value of each option grant has been estimated at the date of grant while the fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan has been estimated at the beginning of each of the respective offering periods, both using a Black-Scholes option-pricing model with the following weighted-average assumptions:

Employee Stock Options				Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
Expected life (in years)	5	5	5	5	5
Risk-free interest rate	4.15%	4.81%	6.59%	3.03%	4.57%
Volatility	0.70	0.70	0.60	0.70	0.70

				Six Months Ended	
Employee Stock Purchase Plan	2002	2001	2000	July 4, 2003	June 28, 2002
Expected life (in years)	0.25	0.25	0.33	0.25	0.25
Risk-free interest rate	1.71%	4.26%	6.20%	1.17%	1.76 %
Volatility	0.70	0.70	0.60	0.70	0.70

The weighted-average estimated fair value of employee stock options granted during 2002, 2001 and 2000 was $1.98, $3.18 and $9.24 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during 2002, 2001 and 2000 was $0.59, $1.09 and $3.87, respectively.

The weighted-average estimated fair value of employee stock options granted during the first six months of 2003 and 2002 was $0.76 and $1.99 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during the first six months of 2003 and 2002 was $0.32 and $0.84 per share, respectively.

Income Taxes

Income taxes are accounted for using the asset and liability method and are determined on a separate return basis. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized.

Foreign Currencies

The Company utilizes the U.S. dollar as its functional currency. The net effects of gains and losses from foreign currency transactions and from the translation of foreign currency financial statements into U.S. dollars are included in current operations.

Related Party Transactions

The Company has extensive transactions and relationships with ON Semiconductor and its affiliates including intercompany pricing agreements and certain manufacturing and information technology support agreements. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

Defined Benefit Plans

The Company maintains pension plans covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increase for plan employees. All of these assumptions are based upon management's judgement, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact the future expense recognition and cash funding requirements of our pension plans.

Reclassifications

Certain amounts have been reclassified to conform with the current year presentation.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Under this standard, asset retirement obligations will be recognized when incurred at their estimated fair value. In addition, the cost of the asset retirement obligation will be capitalized as a part of the assets' carrying valued and depreciated over the assets' remaining useful life. The Company will be required to adopt SFAS No. 143 effective January 1, 2003. The Company does not expect the implementation of SFAS No. 143 to have a material effect on its results of operations.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective January 1, 2002. SFAS No. 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company's adoption of SFAS No. 144 did not impact its financial condition or results of operations.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002". SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB No. 30 for classification as an extraordinary item shall be reclassified. SFAS No. 145 also amends FASB Statement No. 13, Accounting for Leases" and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company is required to adopt SFAS No. 145 effective January 1, 2003. The Company's adoption of SFAS 145 did not impact its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment to FAS 123." SFAS No. 148 provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in annual and interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for the Company's fiscal year 2002. The interim disclosure requirements are effective for the first quarter of fiscal year 2003 and are included in Note 3, "Significant Accounting Policies." The Company has no plans to change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately. The Company's adoption of FIN 45 did not impact its financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created to acquired prior to February 1, 2003, the provisions of FIN 46 must be applied to the first interim or annual period beginning after June 15, 2003. The Company's adoption of FIN 46 did not impact its financial condition or results of operations.

Note 4: Property, Plant and Equipment

Property, plant and equipment consists of the following at December 31, 2002 and 2001 and July 4, 2003 (in millions):

	December 31,		July 4,
	2002	2001	2003
			(unaudited)
Property, plant and equipment, net:			
Buildings	$ 46.6	$ 44.8	$ 46.8
Machinery and equipment	243.9	249.1	243.0
Total property, plant and equipment	290.5	293.9	289.8
Less: Accumulated depreciation	(187.4)	(162.7)	(201.8)
	$ 103.1	$ 131.2	$ 88.0

Depreciation expense totaled $31.9 million, $ 32.7 million and $28.9 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 5: Notes Payable to Affiliate

In conjunction with the Recapitalization, the Company entered into notes payable with an affiliate totaling $114.4 million. Borrowings under the notes payable bear interest at 9.3% (payable monthly) and are due July 31, 2011. As of December 31, 2002 and 2001, $89.4 million was outstanding under these notes payable. During the first six months of 2003 the Company prepaid $12.0 million of the note payable, resulting in $77.4 million outstanding at July 4, 2003.

Cash paid for interest was $8.7 million, $8.4 million and $9.1 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 6: Income Taxes

The income tax provision (benefit) is as follows (in millions):

	Year Ended December 31,		
	2002	2001	2000
Current	$(2.6)	$(0.8)	$(1.2)
Deferred	1.6	(3.1)	(4.8)
	$(1.0)	$(3.9)	$(6.0)

A reconciliation of the Malaysia statutory income tax rate to the Company's effective income tax is as follows:

	Year Ended December 31,		
	2002	2001	2000
Malaysia statutory rate	(28.0)%	(28.0)%	28.0 %
Increase (decrease) resulting from:			
Reinvestment allowances	—	(9.6)	(123.4)
Non-deductible corporate expense allocation	—	3.0	18.2
Income taxes of prior years	(187.0)	0.4	(21.0)
Foreign currency remeasurement	72.7	6.7	20.7
Other	6.2	(0.2)	5.2
	(136.1)%	(27.7)%	(72.3)%

Deferred tax assets (liabilities) at December 31, 2002 and 2001 are as follows (in millions):

	Year Ended December 31,	
	2002	2001
Reserves and accruals	$ 0.3	$ 0.2
Property, plant and equipment	(2.9)	(0.9)
Other	1.6	1.2
Net deferred tax asset (liability)	$(1.0)	$ 0.5

Cash paid for income taxes was $0.8 million, $2.2 million and $3.0 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 7: Employee Benefit Plans

The Company has a noncontributory pension plan that covers most employees. The benefit formula is dependent upon employee earnings and years of service. The Company's policy is to fund the plan in accordance with the requirements and regulations of Malaysian labor laws. Benefits under the pension plan are valued using the projected unit credit method.

The following is a summary of the status of the pension plan and the net periodic pension cost (dollars in millions):

	December 31, 2002	December 31, 2001
Assumptions used to value the Company's pension obligations are as follows:		
Rate of compensation increase	5.50%	5.50%
Discount rate	5.50%	5.50%
Change in Benefit Obligation:		
Benefit obligation, beginning of period	$ 4.1	$ 5.1
Service cost	0.4	0.5
Interest cost	0.2	0.3
Curtailment gain	—	(0.4)
Actuarial loss	0.2	0.1
Benefits paid	(0.3)	(1.5)
Benefit obligation, end of period	$ 4.6	$ 4.1
Balances, end of period:		
Pension benefit obligation	$ (4.6)	$ (4.1)
Fair value of plan assets	—	—
Funded status	(4.6)	(4.1)
Unrecognized net actuarial loss	0.2	—
Net liability recognized, end of period	$ (4.4)	$ (4.1)

	December 31, 2002	December 31, 2001	December 31, 2000
Assumptions used to determine pension costs are as follows:			
Discount rate	5.50%	7.00%	6.50%
Expected return on assets	5.50%	7.00%	6.50%
Rate of compensation increase	5.50%	7.00%	6.50%
Components of net periodic pension cost:			
Service cost	$ 0.4	$ 0.5	$ 0.5
Interest cost	0.2	0.3	0.3
Curtailment gain	—	(0.3)	—
Net periodic pension cost	$ 0.6	$ 0.5	$ 0.8

In 2003, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, the Company will no longer defer actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred. This change did not have a material impact on the Company.

Note 8: Foreign Currency Exchange Contracts

The Company's foreign currency exposures are included in ON Semiconductor's worldwide foreign currency exposure management program. ON Semiconductor aggregates the forecasted foreign currency exposures for each of its subsidiaries on a monthly basis and enters into forward currency contracts in order to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. Prior to January 1, 2001, the Company entered into its own foreign currency contracts. The Company's net foreign currency transaction losses included in the accompanying consolidated statement of operations for the years ended December 31, 2002, 2001 and 2000 are $0.0 million, $0.2 million and $0.6 million, respectively. The following schedule shows the notional amounts of net foreign exchange positions in U.S. dollars as of December 31, 2000 (in millions):

	2000 Buy (Sell)
Japanese Yen	$ 2.3
Malaysian Ringgit	19.4
Euro	1.8
Other	2.0
	$25.5

Note 9: Fair Value of Financial Instruments

The Company uses the following methods to estimate the fair values of its financial instruments:

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short-term maturities of such instruments.

Notes Payable to Affiliates

Due to the related party nature of the notes payable to affiliates, it was not practicable to estimate their fair values due to the inability to obtain quoted market prices or determine current market rate for similar instruments. At December 31, 2002 and 2001, the carrying value of the notes payable to affiliates was $89.4 million respectively.

Note 10: Commitments and Contingencies

Legal Matters

ON Semiconductor is currently involved in a variety of legal matters that arose in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters will have a material adverse effect on ON Semiconductor's financial condition, results of operations or cash flows.

Common Stock Collateral Pledge

On May 6, 2002, ON Semiconductor and SCI LLC (collectively, the "Issuers") issued $300 million principal amount of second lien notes in a private offering that was exempt from registration requirements of the

Federal Securities laws. The notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by ON Semiconductor's domestic restricted subsidiaries that are guarantors under its senior subordinated notes. In addition, the notes and guarantees are secured on a second priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its foreign subsidiaries, which includes the Company and certain of its affiliates, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

On March 3, 2003, the Issuers issued $200.0 million principal amount of first-lien senior secured notes due 2010 (the "First-Lien Notes") in a private offering that was exempt from registration requirements of the Federal Securities laws. The obligations under the First-Lien Notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor Corporation (other than SCI LLC). The First-Lien Notes and guarantees are secured on a first-priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its foreign subsidiaries, which includes the Company and certain of its affiliates, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

Note 11: Restructuring and Asset Impairments

The activity related to the Company's restructuring and asset impairments is as follows (in millions):

	Reserve Balance at 12/31/2000	2001 Charges	2001 Usage	Reserve Balance at 12/31/2001	2002 Charges	2002 Usage	2002 Reserves Released	Reserve Balance at 12/31/2002
	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
June 2001								
Cash employee separation charges	—	4.4	(2.7)	1.7	—	—	(1.7)	—
Cash exit costs	—	0.6	—	0.6	—	(0.4)	(0.2)	—
Non-cash fixed asset write-offs	—	0.9	(0.9)	—	—	—	—	—
June 2001 Restructuring reserve balance	—			2.3				—
March 2001								
Cash employee separation charges	—	3.5	(3.5)	—	—	—	—	—
March 2001 Restructuring reserve balance	—			—				—
	$ —	$ 9.4	$ (7.1)	$ 2.3	$ —	$ (0.4)	$ (1.9)	$ —

The following table reconciles the restructuring, asset impairments and other activity to the "Restructuring, asset impairments and other" caption on the statement of operations for the six months ended July 4, 2003 and June 28, 2002 (in millions):

	Six Months Ended July 4, 2003
2003 asset impairments	$ 4.2
Restructuring, asset impairments and other	$ 4.2

	Six Months Ended June 28, 2002
Reserves released during the period	$ (1.7)
Restructuring, asset impairments and other	$ (1.7)

June 2003 Restructuring and Asset Impairments

In the first six months of 2003, the Company recorded a non-cash asset impairment charge totaling $4.2 million. The charge included $3.3 million associated with the assembly and test production line which was written down to fair value based on its future discounted cash flows. Additionally, the Company identified certain machinery and equipment that would no longer be utilized and recorded a charge of $0.9 million to write-down the remaining carrying value of these assets to their net realizable value.

June 2001 Restructuring and Asset Impairments

In June 2001, the Company recorded charges totaling $5.9 million for costs associated with its restructuring programs. These programs were in response to rapidly changing economic circumstances requiring the Company to rationalize its manufacturing operations to meet declining customer demand. The programs included the transfer of certain manufacturing operations at the Company's facility to other ON Semiconductor-owned facilities or to third party contractors by December 2001. The charge included $4.4 million to cover employee separation costs associated with the termination of approximately 700 employees. All impacted employees had been terminated and the Company released the remaining $1.7 million reserve to income during the second quarter of 2002.

The planned discontinuation of certain manufacturing activities triggered an impairment analysis to the carrying value of the related assets and resulted in the Company recording asset impairment charges totaling $0.9 million. This charge included $0.9 million related to the Seremban assembly and test facility. The Company measured the amount of each asset impairment by comparing the carrying value of the respective assets to the related estimated fair value. The Company estimated future net cash flows for the period of continuing manufacturing activities for each group of assets using price, volume, cost, capital and salvage value assumptions that management considered to be reasonable in the circumstances. The impairment charges were recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value. The related assets have been sold to third parties at amounts that approximated their estimated fair values or were transferred to other manufacturing facilities at their previously existing carrying values.

The June 2001 charge also included $0.6 million to cover certain exit costs relating facility closure. All facility closure activities had been completed and the Company released the remaining $0.2 million reserve to income during the third quarter of 2002.

March 2001 Restructuring

In March 2001, the Company recorded charges totaling $3.5 million for costs associated with its restructuring programs. The charges of $3.5 million cover employee separation costs associated with the termination of approximately 350 employees. The employee separation costs reflected further reductions in manufacturing, general and administrative staffing levels in Malaysia. All impacted employees have been terminated under this restructuring program.

Note 12: Stock Options

Certain employees of the Company participate in ON Semiconductor stock option plans.

Generally, the options granted under these plans vest over a period of four years. Upon the termination of an option holder's employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability).

Information with respect to the activity of the stock option plans as it relates to the employees of the Company is as follows (in millions, except per share data):

	2002		2001		2000	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	0.6	$ 6.94	0.5	$ 8.00	0.3	1.50
Grants	0.2	3.24	0.2	5.14	0.2	15.96
Exercises	—	—	—	—	—	—
Cancellations	(0.1)	5.38	(0.1)	12.08	—	—
Outstanding at end of year	0.7	$ 6.12	0.6	$ 6.94	0.5	$ 8.00
Exercisable at end of year	0.3	$ 8.17	0.1	$ 1.57	0.1	$ 1.50
Weighted average fair value of options granted during the period		$ 1.98		$ 3.18		$ 9.24

The following tables summarize options outstanding and options exercisable at December 31, 2002:

	Outstanding Options		
Range of Exercise Prices	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
\$1.45–\$3.86	0.4	7.93	\$ 2.50
\$5.95–\$6.95	0.1	8.16	6.14
\$13.06–\$16.00	0.2	7.32	15.99
Totals	0.7		\$ 6.12

	Exercisable Options		
Range of Exercise Prices	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
\$1.45–\$3.86	0.2	6.89	\$ 1.68
\$13.06–\$16.00	0.1	7.32	16.00
Totals	0.3		\$ 8.17

These options will expire if not exercised at specific dates through July 2012.

Eligible employees also participate in ON Semiconductor's 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company's full-time employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of ON Semiconductor common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. During each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to \$6,250 divided by the fair market value of the stock on the first day of the offering period. During 2002, and 2001, employees purchased approximately 185,000 and 89,000 shares under the plan.

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

FINANCIAL STATEMENTS

As of December 31, 2002 and 2001 and for the Years Ended December 31, 2002, 2001 and 2000

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholder of SCG Philippines, Incorporated

In our opinion, the accompanying balance sheet and the related statements of operations, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of SCG Philippines, Incorporated (an indirect wholly-owned subsidiary of ON Semiconductor Corporation) at December 31, 2002 and December 31, 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company has extensive transactions and relationships with ON Semiconductor Corporation and its affiliates. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona
February 5, 2003, except for
the fourth paragraph of Note 10
for which the date is March 3, 2003

SCG PHILIPPINES, INCORPORATED

BALANCE SHEET

	December 31, 2002	December 31, 2001	July 4, 2003 (unaudited)
		(In millions)	
ASSETS			
Cash and cash equivalents	$ 4.6	$ 3.5	$ 9.5
Receivable from Motorola	—	2.3	—
Other current assets	2.4	5.4	2.2
Due from affiliates	7.0	2.9	6.6
Deferred income taxes	—	0.1	0.1
Total current assets	14.0	14.2	18.4
Property, plant and equipment, net	31.0	38.8	26.3
Other assets	0.3	0.5	0.3
Total assets	$ 45.3	$ 53.5	$ 45.0
LIABILITIES AND STOCKHOLDER'S EQUITY			
Accounts payable	$ 2.6	$ 2.9	$ 2.6
Accrued expenses	0.5	0.3	0.6
Due to affiliates	0.2	0.3	0.1
Income taxes payable	0.4	—	—
Total current liabilities	3.7	3.5	3.3
Other long-term liabilities	0.2	0.1	0.3
Deferred income taxes	0.6	0.7	0.4
Total liabilities	4.5	4.3	4.0
Commitments and contingencies (See Note 10)	—	—	—
Common stock	68.2	67.4	68.7
Accumulated deficit	(27.4)	(18.2)	(27.7)
Total stockholder's equity	40.8	49.2	41.0
Total liabilities and stockholder's equity	$ 45.3	$ 53.5	$ 45.0

The accompanying notes are an integral part of these financial statements.

SCG PHILIPPINES, INCORPORATED

STATEMENT OF OPERATIONS

	Year Ended December 31,			Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
			(In millions)		
Sales to affiliates	$34.1	$32.4	$164.1	$ 17.7	$ 15.0
Cost of sales to affiliates	31.0	28.0	148.9	16.3	14.6
Gross profit	3.1	4.4	15.2	1.4	0.4
Operating expenses:					
General and administrative	2.7	3.3	3.9	1.4	1.2
Restructuring and asset impairments	2.3	2.1	—	0.1	2.3
Total operating expenses	5.0	5.4	3.9	1.5	3.5
Operating income (loss)	(1.9)	(1.0)	11.3	(0.1)	(3.1)
Interest income	0.1	—	0.3	—	—
Income (loss) before income taxes	(1.8)	(1.0)	11.6	(0.1)	(3.1)
Income tax benefit (provision)	(1.4)	1.0	(3.1)	(0.2)	(0.8)
Net income (loss)	$ (3.2)	$ —	$ 8.5	$ (0.3)	$ (3.9)

The accompanying notes are an integral part of these financial statements.

SCG PHILIPPINES, INCORPORATED

STATEMENT OF STOCKHOLDER'S EQUITY

	Common Stock	Retained Earnings (Accumulated Deficit)	Total
		(In millions)	
Balance at December 31, 1999	$ 65.2	$ 3.9	$ 69.1
Contributed services by Parent	1.1	—	1.1
Dividends paid	—	(10.0)	(10.0)
Comprehensive income:			
Net income	—	8.5	8.5
Balance at December 31, 2000	66.3	2.4	68.7
Contributed services by Parent	1.1	—	1.1
Dividends paid	—	(20.6)	(20.6)
Comprehensive loss:			
Net loss	—	—	—
Balance at December 31, 2001	67.4	(18.2)	49.2
Contributed services by Parent	0.8	—	0.8
Dividends paid	—	(6.0)	(6.0)
Comprehensive loss:			
Net loss	—	(3.2)	(3.2)
Balance at December 31, 2002	68.2	(27.4)	40.8
Contributed services by Parent (unaudited)	0.5	—	0.5
Comprehensive loss:			
Net loss (unaudited)	—	(0.3)	(0.3)
Balance at July 4, 2003 (unaudited)	$ 68.7	$ (27.7)	$ (41.0)

The accompanying notes are an integral part of these financial statements.

SCG PHILIPPINES, INCORPORATED

STATEMENT OF CASH FLOWS

	Year Ended December 31,			Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
				(unaudited)	(unaudited)
			(In millions)		
Cash flows from operating activities:					
Net income (loss)	$ (3.2)	$ —	$ 8.5	$ (0.3)	$ (3.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	10.0	10.9	9.7	4.8	5.5
Write-off of receivable from Motorola	2.3	—	—	—	2.3
Non-cash impairment write-down of property, plant and equipment	—	0.6	—	0.1	—
Non-cash support costs provided by Parent	0.8	1.1	1.1	0.5	0.4
Deferred income taxes	—	(1.0)	1.1	(0.3)	(0.1)
Other	(0.6)	1.0	0.2	0.4	0.3
Changes in assets and liabilities:					
Receivables	—	(0.3)	0.2	—	—
Inventories	—	—	9.6	—	—
Other assets	3.2	(0.5)	(2.5)	(0.4)	3.1
Due from affiliates	(4.1)	(2.8)	1.2	0.4	(3.5)
Accounts payable	(0.3)	(1.4)	1.7	—	(0.9)
Accrued expenses	0.2	(1.6)	(0.1)	0.1	0.6
Due to affiliates	(0.1)	0.2	—	(0.1)	(0.1)
Income taxes payable	0.4	—	(2.2)	(0.4)	0.4
Other long-term liabilities	0.1	0.1	0.3	0.1	0.2
Net cash provided by operating activities	8.7	6.3	28.8	4.9	4.3
Cash flows from investing activities:					
Purchases of property, plant and equipment	(1.6)	(1.5)	(13.1)	—	(2.0)
Proceeds from sales of property, plant and equipment	—	—	1.1	—	—
Net cash used in investing activities	(1.6)	(1.5)	(12.0)	—	(2.0)
Cash flows from financing activities:					
Payment of dividends	(6.0)	(20.6)	(10.0)	—	—
Net cash used in financing activities	(6.0)	(20.6)	(10.0)	—	—
Net increase (decrease) in cash and cash equivalents	1.1	(15.8)	6.8	4.9	2.3
Cash and cash equivalents, beginning of year	3.5	19.3	12.5	4.6	3.5
Cash and cash equivalents, end of year	$ 4.6	$ 3.5	$ 19.3	$ 9.5	$ 5.8

The accompanying notes are an integral part of these financial statements.

Note 1: Background and Basis of Presentation

SCG Philippines, Incorporated (the "Company") is a wholly-owned subsidiary of Semiconductor Components Industries, LLC ("SCI LLC" or "Parent"), which is a wholly-owned subsidiary of ON Semiconductor Corporation ("ON Semiconductor"). The Company is located in Carmona, Philippines and is primarily engaged in the manufacture of semiconductor products. Formerly known as the Semiconductor Components Group of the Semiconductor Products Sector of Motorola, Inc., ON Semiconductor was a wholly-owned subsidiary of Motorola Inc. ("Motorola") prior to its August 4, 1999 recapitalization (the "Recapitalization"). ON Semiconductor continues to hold, through direct and indirect subsidiaries, substantially all the assets and operations of the Semiconductor Components Group of Motorola's Semiconductor Products Sector. The Company's common stock consists of 3,000,000 authorized shares, 2,250,000 shares of which were issued to SCI LLC in connection with the Recapitalization and remain outstanding.

Prior to November 1, 2000, the Company produced a portion of its die requirements internally and purchased its remaining requirements from an affiliated company. The Company then converted such die into semiconductor products and then sold such products to an affiliated company. Effective November 1, 2000, the Company sold its existing inventories at a cost of $12.7 million to another affiliated company and now performs assembly and test manufacturing services for that affiliated company on a consignment basis.

SCI LLC incurs certain manufacturing and information technology support costs that directly benefit its various manufacturing affiliates including the Company. Although such costs are not recorded in the Company's local statutory accounts and are not deductible for local tax purposes, they have been allocated to the Company and reflected in the accompanying financial statements as cost of sales with an offsetting capital contribution from SCI LLC. The allocations utilized in arriving at the amounts reflected in the accompanying financial statements are based on assumptions that management believes are reasonable in the circumstances; however, such allocations are not necessarily indicative of the costs that would have been incurred by the Company had it operated as a stand-alone entity.

The accompanying unaudited financial statements as of July 4, 2003 and for the six months ended June 28, 2002 and July 4, 2003, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information and on the same basis of presentation as the audited financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for financial statements. In the opinion of the Company's management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited.

Note 2: Liquidity

During the six months ended July 4, 2003, ON Semiconductor incurred a net loss of $108.0 million, compared to a net loss of $81.8 million, for the six months ended June 28, 2002. ON Semiconductor's net loss included restructuring, asset impairments and other charges of $34.6 million for the six months ended July 4, 2003 as compared to $10.2 million for the six months ended June 28, 2002. ON Semiconductor's net loss for the first six months of 2003 also included a charge of $21.5 million relating to a change in accounting principle. Net cash provided by operating activities was $16.7 million in the six months ended July 4, 2003, as compared to net cash provided by operating activities of $12.5 million for the six months ended June 28, 2002.

At July 4, 2003, ON Semiconductor had $181.2 million in cash and cash equivalents, net working capital of $196.5 million, term or revolving debt of $1,441.6 million and a stockholders' deficit of $750.7 million.

ON Semiconductor's long-term debt includes $520.7 million under its senior bank facilities; $292.0 million (net of discount) of its 13% second lien senior secured notes due 2008; $191.2 million (net of discount) of its 12% first lien senior secured notes due 2010; $260.0 million of its 12% senior subordinated notes due 2009; $133.4 million under a 10% junior subordinated note payable to Motorola due 2011; $23.4 million under a note payable to a Japanese bank due 2010; $20.0 million under a loan facility with a Chinese bank and $0.9 million under a capital lease obligation. ON Semiconductor was in compliance with all of the covenants contained in its various debt agreements as of July 4, 2003 and expects to remain in compliance over the next twelve months.

During the year ended December 31, 2002, ON Semiconductor incurred a net loss of $141.9 million compared to a net loss of $831.4 million in 2001 and net income of $71.1 million in 2000. ON Semiconductor's net results included restructuring and other of $27.7 million, $150.4 million and $4.8 million in 2002, 2001 and 2000, respectively, as well as interest expense of $149.5 million, $139.6 million and $135.3 million, respectively. ON Semiconductor's operating activities provided cash of $46.4 million in 2002 and $312.2 million in 2000 and used cash of $116.4 million in 2001.

At December 31, 2002, ON Semiconductor had $190.4 million in cash and cash equivalents, net working capital of $195.2 million, term or revolving debt of $1,423.2 million and a stockholders' deficit of $662.1 million. ON Semiconductor's long-term debt includes $701.6 million under its senior bank facilities; $291.4 million (net of discount) of its 12% senior secured notes due 2008; $260.0 million of its 12% senior subordinated notes due 2009; $126.9 million under a 10% junior subordinated note payable to Motorola due 2011; $20.0 million loan facility with a Chinese bank; and, $23.3 million under a note payable to a Japanese bank due 2010.

ON Semiconductor's ability to service its long-term debt, to remain in compliance with the various covenants and restrictions contained in its credit agreements and to fund working capital, capital expenditures and business development efforts will depend on its ability to generate cash from operating activities which is subject to, among other things, its future operating performance as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may be beyond its control.

If ON Semiconductor fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to ON Semiconductor. Although there can be no assurance, management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund ON Semiconductor's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2003. To the extent that results or events differ from ON Semiconductor's financial projections and business plans, the Company's liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant estimates have been used by management in conjunction with the measurement of valuation allowances relating to receivables; restructuring charges and pension obligations; and future cash flows associated with long-lived assets. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of such instruments.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated over estimated useful lives of 30-40 years for buildings and 3-20 years for machinery and equipment using accelerated and straight-line methods. Expenditures for maintenance and repairs are charged to operations in the year in which the expense is incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized.

The Company evaluates the recoverability of the carrying amount of its property, plant and equipment whenever events or changes in circumstances indicate that the related carrying amount of an asset may not be recoverable. Impairment is assessed when the undiscounted expected cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in operating results. Judgment is used when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an impaired asset. The dynamic economic environment in which the Company operates and the resulting assumptions used to estimate future cash flows impact the outcome of these impairment tests.

Revenue Recognition

Prior to November 1, 2000, the Company recognized revenue when semiconductor products were delivered to the affiliated company. These revenues included the cost of raw materials inventory purchased from third- parties and affiliates plus a markup based on an intercompany transfer pricing agreement. Effective November 1, 2000, the Company no longer takes title to the raw material inventory and recognizes revenue when assembly and test services are completed on inventory consigned in from affiliates and the related products are delivered to the affiliated company. Revenues include the cost of assembly and test services performed plus a markup based on an intercompany transfer pricing agreement.

Stock-Based Compensation

The Company accounts for employee stock options relating to the common stock of ON Semiconductor in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) and provides the pro forma disclosures required by Statement of Financial Accounting Standards (“SFAS”) No. 123 “Accounting for Stock Based Compensation”. The Company measures compensation expense relating to non-employee stock awards in accordance with SFAS No. 123.

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net income (loss) for the years ended December 31, 2002, 2001, and 2000 and the six months ended July 4, 2003 and June 28, 2002 would have been reduced (increased) to the pro forma amounts indicated below (in millions):

	Year Ended December 31,			Six Months Ended	
	2002	2001	2000	July 4, 2003	June 28, 2002
Net income (loss), as reported	$(3.2)	$—	$ 8.5	$ (0.3)	$ (3.9)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(0.3)	(0.2)	(0.1)	(0.1)	(0.2)
Pro forma net income (loss)	$(3.5)	$(0.2)	$ 8.4	$ (0.4)	$ (4.1)

The fair value of each option grant has been estimated at the date of grant while the fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan has been estimated at the beginning of each of the respective offering periods, both using a Black-Scholes option-pricing model with the following weighted-average assumptions:

				Six Months Ended	
Employee Stock Options	2002	2001	2000	July 4, 2003	June 28, 2002
Expected life (in years)	5	5	5	5	5
Risk-free interest rate	4.35%	4.93%	6.48%	3.03%	4.57%
Volatility	0.70	0.70	0.60	0.70	0.70

				Six Months Ended	
Employee Stock Purchase Plan	2002	2001	2000	July 4, 2003	June 28, 2002
Expected life (in years)	0.25	0.25	0.33	0.25	0.25
Risk-free interest rate	1.71%	4.26%	6.20%	1.17%	1.76%
Volatility	0.70	0.70	0.60	0.70	0.70

The weighted-average estimated fair value of employee stock options granted during 2002, 2001 and 2000 was $1.94, $3.26 and $8.92 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during 2002, 2001 and 2000 was $0.51, $1.11 and $4.16 per share, respectively.

The weighted-average estimated fair value of employee stock options granted during the first six months of 2003 and 2002 was $0.76 and $1.97 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during the first six months of 2003 and 2002 was $0.32 and $0.82 per share, respectively.

Income Taxes

Income taxes are accounted for using the asset and liability method and are determined on a separate return basis. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized.

Foreign Currencies

The Company utilizes the U.S. dollar as its functional currency. The net effects of gains and losses from foreign currency transactions and from the translation of foreign currency financial statements into U.S. dollars are included in current operations.

Defined Benefit Plan

The Company maintains a defined benefit pension plan covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increase for plan employees. All of these assumptions are based upon management's judgement, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact the future expense recognition and cash funding requirements of the pension plan.

Related Party Transactions

The Company has extensive transactions and relationships with ON Semiconductor and its affiliates including intercompany pricing agreements and certain manufacturing and information technology support agreements. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Under this standard, asset retirement obligations will be recognized when incurred at their estimated fair value. In addition, the cost of the asset retirement obligation will be capitalized as a part of the assets' carrying value and depreciated over the assets' remaining useful life. The Company will be required to adopt SFAS No. 143 effective January 1, 2003. The Company does not expect the implementation of SFAS No. 143 to have a material effect on its results of operations.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective January 1, 2002. SFAS No. 144 requires that all long-lived assets (including discontinued operations) that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company's adoption of SFAS No. 144 did not impact its financial condition or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002". SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the Accounting Principles Board ("APB")

Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB No. 30 for classification as an extraordinary item shall be reclassified. SFAS No. 145 also amends FASB Statement No. 13, Accounting for Leases" and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company is required to adopt SFAS No. 145 effective January 1, 2003. The Company's adoption of SFAS No. 145 did not impact its financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment to FAS 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in annual and interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for the Company's fiscal year 2002. The interim disclosure requirements are effective for the first quarter of fiscal year 2003 and are included in Note 3, "Significant Accounting Policies." The Company has no plans to change to the fair value based method of accounting for stock-based employee compensation.

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately. The Company's adoption of FIN No. 45 did not impact its financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created to acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied to the first interim or annual period beginning after June 15, 2003. The Company's adoption of FIN No. 46 did not impact its financial condition or results of operations.

Note 4: Restructuring and Asset Impairments

The activity related to the Company's restructuring, asset impairments and other is as follows (in millions):

	Reserve Balance at 12/31/2000	2001 Charges	2001 Usage	Reserves Released	Reserve Balance at 12/31/2001
	$ —	$ —	$ —	$ —	$ —
June 2001 Restructuring					
Cash employee separation charges	—	0.6	(0.3)	(0.3)	—
June 2001 Restructuring reserve balance	—				—
March 2001 Restructuring					
Cash employee separation charges	—	1.2	(1.2)	—	—
Non-cash fixed asset write-offs	—	0.6	(0.6)	—	—
March 2001 Restructuring reserve balance	—				—
	$ —	$ 2.4	$ (2.1)	$ (0.3)	$ —

The following table reconciles the restructuring activity in the tables above to the "Restructuring and other" caption on the statement of operations for the years ended December 31, 2002 and 2001 (in millions):

	Year Ended December 31, 2002
2002 restructuring, asset impairments and other	$ —
Plus: Motorola receivable write-off	2.3
Restructuring, asset impairments and other	$ 2.3

	December 31, 2001
2001 restructuring, asset impairments and other	$ 2.4
Less: Reserves released during the period	(0.3)
Restructuring, asset impairments and other	$ 2.1

The following table reconciles the restructuring, asset impairments and other activity to the "Restructuring, asset impairments and other" caption on the statement of operations for the six months ended July 4, 2003 and June 28, 2002 (in millions):

	Six Months Ended July 4, 2003
2003 asset impairments	$ 0.1
Restructuring, asset impairments and other	$ 0.1

	Six Months Ended June 28, 2002
2002 restructuring, asset impairments and other	$ —
Plus: Motorola receivable write-off	2.3
Restructuring, asset impairments and other	$ 2.3

June 2003

In the first six months of 2003, the Company recorded a non-cash asset impairment charge totaling $0.1 million. The Company identified certain machinery and equipment that would no longer be utilized and recorded a charge of $0.1 million to write-down the remaining carrying value of these assets to their net realizable value.

June 2002

During the second quarter of 2002, ON Semiconductor and Motorola reached a settlement of various contractual issues in exchange for a cash payment from Motorola of $10.6 million which resulted in a related gain to ON Semiconductor of $12.4 million. Because the majority of the contractual issues were between SCI LLC and Motorola, the related gain was recorded entirely on the books of SCI LLC. As a part of the settlement included forgiveness of a receivable due from Motorola, the Company recorded a $2.3 million write-off, which is included in restructuring and asset impairments in the statement of operations for the year ended December 31, 2002.

June 2001

In June 2001, the Company recorded charges totaling $0.6 million for costs associated with a restructuring program. The charge included $0.6 million to cover employee separation costs associated with the termination of approximately 30 employees. All impacted employees had been terminated and the Company released the remaining $0.3 million reserve to income during the fourth quarter of 2001 as the actual severance costs were less than originally estimated.

March 2001

In March 2001, the Company recorded charges totaling $1.8 million for costs associated with a restructuring program. The charges included $1.2 million to cover employee separation costs associated with the termination of approximately 100 employees as well as $0.6 million for equipment write-offs that were charged directly against the related assets.

The employee separation costs reflected reductions in the Company’s manufacturing, general and administrative staffing levels. All impacted employees have been terminated under this restructuring program.

The March 2001 charge included property and equipment write downs of $0.6 million relating to assets that could not be utilized or transferred to other affiliated locations.

Note 5: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31, 2002	December 31, 2001	July 4, 2003 (unaudited)
Other current assets:			
Value added tax receivable	$ 1.3	$ 2.1	$ 0.8
Income tax receivable	—	0.4	0.6
Prepaid assets	0.3	1.5	0.3
Production supplies, tool and die	0.7	1.4	0.3
Other	0.1	—	0.2
	$ 2.4	$ 5.4	$ 2.2
Property, plant and equipment, net:			
Buildings	$ 27.0	$ 26.7	$ 27.0
Machinery and equipment	65.7	64.7	62.5
Total property, plant and equipment	92.7	91.4	89.5
Less: Accumulated depreciation	(61.7)	(52.6)	(63.2)
	$ 31.0	$ 38.8	$ 26.3
Accrued expenses:			
Current portion of pension liability	$ 0.2	$ 0.3	$ 0.3
Accrued payroll	0.2	—	0.3
Other	0.1	—	
	$ 0.5	$ 0.3	$ 0.6

Depreciation expense totaled $10.0 million, $10.9 million and $9.7 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 6: Income Taxes

The provision (benefit) for income taxes is as follows (in millions):

	Year Ended December 31, 2002	2001	2000
Current	$ 1.5	$ 0.1	$2.0
Deferred	(0.1)	(1.1)	1.1
	$ 1.4	$(1.0)	$3.1

A reconciliation of the Philippines statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2002	2001	2000
Philippines federal statutory rate	(32.0)%	(32.0)%	32.0%
Increase (decrease) resulting from:			
Tax holiday	—	(33.1)	(13.3)
Foreign currency remeasurement	98.9	72.9	7.2
Non-deductible corporate allocation	14.2	28.3	2.9
Prior year taxes	—	(125.4)	—
Other	(1.9)	(6.3)	(2.4)
	79.2%	(95.6)%	26.4%

Deferred tax assets (liabilities) are as follows (in millions):

	Year Ended December 31,	
	2002	2001
Unrealized foreign exchange gains	$(0.1)	$—
Reserves and accruals	0.3	0.2
Depreciation	(1.0)	(1.2)
Other	0.2	0.4
Net deferred tax liability	$(0.6)	$(0.6)

Cash paid for income taxes was $0.6 million, $0.2 million and $4.5 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Note 7: Employee Benefit Plan

Defined Benefit Plan

The Company has a pension plan that covers most employees. The benefit formula is dependent upon employee years of service. The Company's policy is to fund the plan in accordance with the requirements and regulations of Philippine labor laws. Benefits under this pension plan are valued using the projected unit credit cost method.

The following is a summary of the status of the Company's pension plan and the net periodic pension cost (dollars in millions):

	December 31, 2002	December 31, 2001
Assumptions used to value the Company's pension obligations are as follows:		
Rate of compensation increase	9.00%	10.00%
Discount rate	11.00%	12.00%
Change in Benefit Obligation:		
Benefit obligation, beginning of period	$ 2.0	$ 2.6
Service cost	0.2	0.2
Interest cost	0.3	0.3
Actuarial gain	(0.1)	(0.2)
Benefits paid	(0.1)	(0.8)
Translation gain	(0.1)	(0.1)
Benefit obligation, end of period	$ 2.2	$ 2.0
Change in Plan Assets:		
Fair value, beginning of period	$ 1.2	$ 2.1
Actual return on plan assets	0.1	—
Employer contributions	0.3	—
Benefits paid	(0.1)	(0.8)
Translation loss	(0.1)	(0.1)
Fair value, end of period	$ 1.4	$ 1.2
Balances, end of period:		
Pension benefit obligation	$ (2.2)	$ (2.0)
Fair value of plan assets	1.4	1.1
Funded status	(0.8)	(0.9)
Unrecognized net actuarial loss	—	0.1
Unrecognized prior service cost	0.4	0.4
Net liability recognized, end of period	$ (0.4)	$ (0.4)
The net amounts recognized in the balance sheet consist of the following:		
Accrued expenses	$ (0.2)	$ (0.3)
Other long-term liabilities	(0.2)	(0.1)
Net liability recognized, end of period	$ (0.4)	$ (0.4)

	Year Ended December 31,		
	2002	2001	2000
Assumptions used to determine pension costs are as follows:			
Discount rate	12.00%	12.00%	12.00%
Expected return on assets	12.00%	12.00%	12.00%
Rate of compensation increase	10.00%	10.00%	10.00%

	Year Ended December 31,		
	2002	2001	2000
Components of net periodic pension cost:			
Service cost	$ 0.2	$ 0.2	$ 0.2
Interest cost	0.3	0.3	0.3
Expected return on assets	(0.2)	(0.2)	(0.2)
Amortization of prior service cost	0.1	—	—
Net periodic pension cost	$ 0.4	$ 0.3	$ 0.3

In 2003, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, the Company will no longer defer actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred. This change did not have a material impact on the Company.

Note 8: Foreign Currency Exchange Contracts

The Company's foreign currency exposures are included in ON Semiconductor's worldwide foreign currency exposure management program. ON Semiconductor aggregates the forecasted foreign currency exposures for each of its subsidiaries on a monthly basis and enters into forward currency contracts in order to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. Prior to January 1, 2001, the Company entered into its own foreign currency contracts. The Company's net foreign currency transaction losses included in the accompanying statement of operations for the years ended December 31, 2002, 2001 and 2000 are $0.0 million, $0.4 million and $0.4 million, respectively. The notional amounts of net foreign exchange positions in U.S. dollars are $4.3 million Philippine Peso and $0.1 million Japanese Yen, totaling $4.4 million as of December 31, 2000.

Note 9: Stock Options

Certain employees of the Company participate in ON Semiconductor stock option plans.

Generally, the options granted under these plans vest over a period of four years. Upon the termination of an option holder's employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability).

Information with respect to the activity of the stock option plans as it relates to the employees of the Company is as follows (in millions, except per share data):

	2002		2001		2000	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	0.3	$ 7.26	0.2	$ 9.04	0.1	$ 1.50
Grants	0.1	3.17	0.1	5.27	0.1	15.45
Exercises	—	—	—	—	—	—
Cancellations	—	—	—	—	—	—
Outstanding at end of year	0.4	$ 6.15	0.3	$ 7.26	0.2	$ 9.04
Exercisable at end of year	0.1	$ 8.13	0.1	$ 5.06	—	$ 4.88
Weighted average fair value of options granted during the period		$ 1.94		$ 3.26		$ 8.92

The following tables summarize options outstanding and options exercisable at December 31, 2002:

	Outstanding Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
$1.25—$2.71	0.1	6.85	$ 1.53
$3.22—$6.95	0.2	8.64	3.70
$13.06—$16.00	0.1	7.42	15.27
Totals	0.4		$ 6.15

	Exercisable Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
$13.06—$16.00	0.1	7.39	$ 15.53

These options will expire if not exercised at specific dates through September 2012.

2000 Employee Stock Purchase Plan

Eligible employees also participate in ON Semiconductor’s 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company’s full-time employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of ON Semiconductor common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. During each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to $6,250 divided by the fair market value of the stock on the first day of the offering period. During 2002, and 2001, employees purchased approximately 13,000 and 11,000 shares under the plan, respectively.

Note 10: Commitments and Contingencies

Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of December 31, 2002 (in millions):

Year ending December 31:	
2003	$0.5
2004	0.2
2005	0.1
	$0.8

Legal Matters

ON Semiconductor is currently involved in a variety of legal matters that arose in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters will have a material adverse effect on ON Semiconductor's financial condition, results of operations or cash flows.

Common Stock Collateral Pledge

On May 6, 2002, ON Semiconductor and SCI LLC (collectively, the "Issuers") issued $300 million principal amount of second lien notes due 2008 in a private offering that was exempt from registration requirements of the Federal Securities laws. The notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by ON Semiconductor's domestic restricted subsidiaries that are guarantors under its senior subordinated notes. In addition, the notes and guarantees are secured on a second priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its first-tier foreign subsidiaries, including the Company, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

On March 3, 2003, the Issuers issued $200.0 million principal amount of first-lien senior secured notes due 2010 (the "First-Lien Notes") in a private offering that was exempt from registration requirements of the Federal Securities laws. The obligations under the First-Lien Notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor Corporation (other than SCI LLC). The First-Lien Notes and guarantees are secured on a first-priority basis the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its first-tier foreign subsidiaries, including the Company, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

EXHIBIT 99.8

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-86870) and the Registration Statements on Form S-8 (No. 333-34130, No. 333-37638, No. 333-71336, No. 333-107896 and No. 333-107895) of ON Semiconductor Corporation of the following reports, all of which appear in ON Semiconductor Corporation's Current Report on Form 8-K dated September 9, 2003:

- Our report dated February 5, 2003 relating to the financial statement schedule of ON Semiconductor Corporation;
- Our report dated February 5, 2003, except for Note 9 for which the date is March 3, 2003 and Note 22 for which the date is September 2, 2003, relating to the consolidated financial statements of ON Semiconductor Corporation;
- Our report dated February 5, 2003, except for Note 8 for which the date is March 3, 2003 and Note 18 for which the date is September 2, 2003, relating to the consolidated financial statements of Semiconductor Components Industries, LLC (a wholly-owned subsidiary of ON Semiconductor Corporation);
- Our report dated February 5, 2003, except for the fourth paragraph of Note 12 for which the date is March 3, 2003, relating to the consolidated financial statements of ON Semiconductor Trading, Ltd. (a wholly-owned subsidiary of ON Semiconductor Corporation);
- Our report dated February 5, 2003, except for the third paragraph of Note 10 for which the date is March 3, 2003, relating to the financial statements of SCG Malaysia Holdings Sdn. Bhd. (a wholly-owned subsidiary of ON Semiconductor Corporation); and,
- Our report dated February 5, 2003, except for the fourth paragraph of Note 10 for which the date is March 3, 2003, relating to the financial statements of SCG Philippines, Incorporated (a wholly-owned subsidiary of ON Semiconductor Corporation).

PricewaterhouseCoopers LLP
Phoenix, Arizona
September 9, 2003