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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 27, 2008

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

(Commission File Number) 000-30419

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**ON SEMICONDUCTOR CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**36-3840979**  
(I.R.S. Employer  
Identification No.)

**5005 E. McDowell Road**  
**Phoenix, AZ 85008**  
(Address and telephone number of principal executive offices)  
**(602) 244-6600**  
(Registrant's telephone number #, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the issuer's class of common stock as of the close of business on July 25, 2008:

Title of Each Class  
**Common Stock, par value \$0.01 per share**

Number of Shares  
**398,336,153**

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## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(in millions, except share and per share data)  
(unaudited)

	June 27, 2008	December 31, 2007
<b>Assets</b>		
Cash and cash equivalents	\$ 321.2	\$ 274.6
Receivables, net	258.5	175.2
Inventories, net	327.6	220.5
Other current assets	70.7	68.3
Deferred income taxes	0.3	6.7
Total current assets	978.3	745.3
Property, plant and equipment, net	744.4	614.9
Goodwill	725.8	172.4
Intangible assets, net	334.5	57.5
Other assets	55.1	47.5
Total assets	<u>\$2,838.1</u>	<u>\$ 1,637.6</u>
<b>Liabilities, Minority Interests and Stockholders' Equity</b>		
Accounts payable	\$ 206.2	\$ 163.5
Accrued expenses	172.4	101.3
Income taxes payable	2.4	3.5
Accrued interest	2.9	1.4
Deferred income on sales to distributors	123.8	120.4
Current portion of long-term debt	80.2	30.8
Total current liabilities	587.9	420.9
Long-term debt	1,151.9	1,128.6
Other long-term liabilities	47.4	46.8
Deferred income taxes	0.7	6.9
Total liabilities	<u>1,787.9</u>	<u>1,603.2</u>
Commitments and contingencies (See Note 9)		
Minority interests in consolidated subsidiaries	16.0	18.5
Common stock (\$0.01 par value, 750,000,000 and 600,000,000 shares authorized, 443,487,508 and 338,031,721 shares issued, 397,968,871 and 292,615,751 shares outstanding), respectively	4.4	3.4
Additional paid-in capital	2,373.1	1,419.6
Accumulated other comprehensive loss	(1.4)	(0.5)
Accumulated deficit	(986.0)	(1,051.4)
Less: treasury stock, at cost; 45,518,637 and 45,415,970 shares, respectively	(355.9)	(355.2)
Total stockholders' equity	<u>1,034.2</u>	<u>15.9</u>
Total liabilities, minority interests and stockholders' equity	<u>\$2,838.1</u>	<u>\$ 1,637.6</u>

See accompanying notes to consolidated financial statements

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME**  
(in millions, except per share data)  
(unaudited)

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Revenues	\$ 562.7	\$ 381.2	\$ 984.6	\$ 755.4
Cost of revenues	371.1	235.2	646.4	472.8
Gross profit	191.6	146.0	338.2	282.6
Operating expenses:				
Research and development	67.5	32.4	107.8	63.2
Selling and marketing	37.9	23.3	63.7	46.2
General and administrative	31.9	18.8	55.7	39.0
In-process research and development	—	—	17.7	—
Amortization of acquisition-related intangible assets	6.7	—	9.1	—
Restructuring, asset impairments and other, net	14.2	—	20.0	—
Total operating expenses	<u>158.2</u>	<u>74.5</u>	<u>274.0</u>	<u>148.4</u>
Operating income	<u>33.4</u>	<u>71.5</u>	<u>64.2</u>	<u>134.2</u>
Other income (expenses), net:				
Interest expense	(9.6)	(9.4)	(18.9)	(19.1)
Interest income	1.8	2.9	3.8	5.7
Other	1.2	—	(0.7)	(0.5)
Loss on debt prepayment	—	—	—	(0.1)
Other income (expenses), net	<u>(6.6)</u>	<u>(6.5)</u>	<u>(15.8)</u>	<u>(14.0)</u>
Income before income taxes and minority interests	26.8	65.0	48.4	120.2
Income tax (provision) benefit	17.1	(1.4)	16.0	(2.0)
Minority interests	0.7	(0.3)	1.0	(0.9)
Net income	<u>\$ 44.6</u>	<u>\$ 63.3</u>	<u>\$ 65.4</u>	<u>\$ 117.3</u>
Comprehensive income:				
Net Income	\$ 44.6	\$ 63.3	\$ 65.4	\$ 117.3
Foreign currency translation adjustments	(7.5)	(1.8)	(1.1)	(1.6)
Amortization of prior service costs of defined benefit plan	0.3	0.1	0.3	0.1
Effects of cash flow hedges	(0.2)	(0.6)	(0.1)	(1.4)
Comprehensive income	<u>\$ 37.2</u>	<u>\$ 61.0</u>	<u>\$ 64.5</u>	<u>\$ 114.4</u>
Net income per common share:				
Basic	<u>\$ 0.11</u>	<u>\$ 0.22</u>	<u>\$ 0.19</u>	<u>\$ 0.40</u>
Diluted	<u>\$ 0.11</u>	<u>\$ 0.21</u>	<u>\$ 0.18</u>	<u>\$ 0.38</u>
Weighted average common shares outstanding:				
Basic	<u>397.2</u>	<u>290.9</u>	<u>352.8</u>	<u>290.2</u>
Diluted	<u>405.8</u>	<u>306.5</u>	<u>360.1</u>	<u>306.1</u>

See accompanying notes to consolidated financial statements.

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in millions)  
(unaudited)

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>	<u>June 27, 2008</u>	<u>June 29, 2007</u>
<b>Cash flows from operating activities:</b>				
Net income	\$ 44.6	\$ 63.3	\$ 65.4	\$ 117.3
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	37.7	22.7	65.6	44.8
Gain on sale of fixed assets	(1.7)	(3.8)	(4.0)	(6.3)
Gain/Loss from termination of interest rate swaps	—	(0.6)	—	0.8
Amortization of debt issuance costs	1.0	1.0	2.0	2.1
Provision for excess inventories	3.2	3.7	5.7	5.3
Non-cash impairment charges	9.8	—	12.0	—
Non-cash write-off of in-process research and development	—	—	17.7	—
Non-cash portion of loss on debt prepayment	—	—	—	0.1
Non-cash stock compensation expense	8.3	3.5	15.0	6.8
Deferred income taxes	(6.5)	1.2	(7.1)	0.8
Other	(0.4)	—	(0.7)	0.1
Changes in assets and liabilities, exclusive of impact of acquisitions:				
Receivables	(13.5)	2.3	(0.3)	6.1
Inventories	32.0	(11.5)	37.5	(13.7)
Other assets	19.6	(4.8)	27.7	(12.3)
Accounts payable	(42.0)	(6.1)	(29.2)	(19.0)
Accrued expenses	(27.6)	(0.9)	(14.7)	(8.2)
Income taxes payable	(0.9)	0.7	(1.4)	—
Accrued interest	(5.0)	(4.1)	1.5	(0.2)
Deferred income on sales to distributors	(1.3)	(11.4)	(0.2)	(12.8)
Other long-term liabilities	(15.4)	0.2	(13.7)	6.8
Net cash provided by operating activities	<u>41.9</u>	<u>55.4</u>	<u>178.8</u>	<u>118.5</u>
<b>Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(29.4)	(27.6)	(44.9)	(76.6)
Deposits utilized for purchases of property, plant and equipment	—	1.6	0.1	0.2
Proceeds from sales of property, plant and equipment	—	2.0	38.6	9.2
Cash received in the acquisition of a business, net of acquisition costs	—	—	161.6	—
Net cash provided by (used in) investing activities	<u>(29.4)</u>	<u>(24.0)</u>	<u>155.4</u>	<u>(67.2)</u>
<b>Cash flows from financing activities:</b>				
Proceeds from debt issuance	44.1	—	44.1	0.5
Proceeds from issuance of common stock under the employee stock purchase plan	1.0	1.2	1.0	2.3
Proceeds from exercise of stock options	9.3	9.6	9.9	28.8
Dividend to minority shareholder of consolidated subsidiary	—	—	(1.5)	(2.8)
Purchase of treasury stock	(0.2)	(55.2)	(0.7)	(55.2)
Payment of capital lease obligation	(5.5)	(4.7)	(12.9)	(8.1)
Payment of debt issuance and amendment costs	—	—	—	(0.4)
Repayment of long-term debt	(44.5)	(1.9)	(325.3)	(28.8)
Net cash used in financing activities	<u>4.2</u>	<u>(51.0)</u>	<u>(285.4)</u>	<u>(63.7)</u>
Effect of exchange rate changes on cash and cash equivalents	(3.4)	(0.4)	(2.2)	(0.6)
Net increase in cash and cash equivalents	13.3	(20.0)	46.6	(13.0)
Cash and cash equivalents, beginning of period	307.9	275.8	274.6	268.8
Cash and cash equivalents, end of period	<u>\$ 321.2</u>	<u>\$ 255.8</u>	<u>\$ 321.2</u>	<u>\$ 255.8</u>
<b>Supplementary disclosure of non-cash investing and financing activities</b>				
Common stock issued for purchase of business	\$ —	\$ —	\$ 928.6	\$ —

See accompanying notes to consolidated financial statements.

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**Note 1: Background and Basis of Presentation**

ON Semiconductor Corporation, together with its wholly and majority-owned subsidiaries (the “Company”), is a global supplier of power, analog, digital signal processing, mixed-signal, advanced logic, data management semiconductors and standard component devices and is engaged in designing, manufacturing and marketing integrated circuits worldwide. The Company was a wholly-owned subsidiary of Motorola Inc. (“Motorola”) prior to its August 4, 1999 recapitalization (the “recapitalization”).

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”). Because TPG 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.

On March 17, 2008, the Company completed the purchase of AMIS Holdings, Inc., a Delaware corporation (“AMIS”), whereby AMIS became a wholly-owned subsidiary of the Company (see Note 3: “Acquisition” for further discussion).

The accompanying unaudited financial statements as of June 27, 2008, and for the three months and six months ended June 27, 2008 and June 29, 2007, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. 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 statement 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, 2007 and for the year then ended included in the Company’s annual report on Form 10-K for the year ended December 31, 2007.

**Note 2: Significant Accounting Policies**

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company, as well as its wholly-owned and majority-owned subsidiaries. Investments in companies that represent less than 20% of the related voting stock where we do not have the ability to exert significant influence are accounted for on the cost basis. All 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 trade and tax receivables, inventories and deferred tax assets; reserves for customer incentives, warranties, tax reserves and pension obligations; the fair values of intangible assets; the fair values of stock options and of financial instruments (including derivative financial instruments); and future cash flows associated with long-lived assets. Actual results could differ from these estimates.

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(unaudited)**

***Cash and cash equivalents***

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained with reputable major financial institutions. Deposits with these banks may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and, therefore, bear minimal risk.

***Allowance for Doubtful Accounts***

In the normal course of business, the Company provides unsecured credit terms to its customers. Accordingly, the Company maintains an allowance for doubtful accounts for possible losses on uncollectible accounts receivable. The Company routinely analyzes accounts receivable and considers history, customer creditworthiness, facts and circumstances specific to outstanding balances, current economic trends, and payment term changes when evaluating adequacy of the allowance for doubtful accounts. For uncollectible accounts receivable the Company records a loss against the allowance for doubtful accounts only after exhaustive efforts have been made to collect and with management's approval. Generally, realized losses have been within the range of management's expectations.

***Inventories***

Inventories not related to an acquisition 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. 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 revenues 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.

Inventory obtained through the purchase of a business, such as the acquisition of AMIS, are initially recorded at expected sales value less costs of disposal. The company used management estimates to determine the fair value of the inventory as of the acquisition date. The methodology involves stepping up the value of acquired finished goods and work-in-process from cost to expected sales value less variable costs to dispose. At each respective acquisition date, the total increase in inventory value related to recording it at fair value for the AMIS acquisition and acquisition of the voltage regulation and thermal monitoring products for its computing and applications business ("PTC Business") from Analog Devices, Inc. and its subsidiaries ("ADI") were \$72.8 million, and \$3.1 million, respectively. As this inventory is shipped to customers, it will significantly decrease the gross margin reported on those future sales until the inventory is completely sold. For the six months ended June 27, 2008, approximately \$48.1 million of the inventory step up has been expensed to the statement of operations, as cost of revenue since the inventory was shipped to the customer.

***Property, Plant and Equipment***

Property, plant and equipment are recorded at cost and are depreciated over estimated useful lives of 30-50 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 carrying amount of an asset may not be fully recoverable. An

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(unaudited)**

impairment charge is recognized 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.

The Company plans to sell approximately 51 acres of land and two buildings located at its corporate headquarters in Phoenix, Arizona. During the fourth quarter of 2007 we entered into an agreement to sell the wafer fabrication facility and associated land at our Phoenix site for approximately \$16 million, subject to various conditions and certain adjustments. If the sale is completed at the originally contracted price, we expect to record gains totaling approximately \$9 million. The sale is scheduled to be completed by the end of the third quarter of 2008. During the second quarter of 2007, the Company entered into an agreement to sell three parcels of land totaling approximately 22 acres for approximately \$9.5 million subject to various conditions and certain adjustments. If the sales are completed at the originally contracted price, the Company expects to record gains totaling approximately \$8.2 million over the next three to four quarters. The sale is expected to be completed by the end of the third quarter of 2008. The remaining unused property and buildings are currently being marketed for sale. The remainder of the Phoenix site will continue as the Company's corporate headquarters as well as a manufacturing and design center and research and development facility.

**Goodwill**

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the Company's April 2000 acquisition of Cherry Semiconductor Corporation ("Cherry"), the Company's September 2006 acquisition of an additional interest in its investment in Leshan-Phoenix Semiconductor Company ("Leshan"), the Company's December 2007 acquisition of ADI, and the Company's March 2008 acquisition of AMIS (see Note 3: "Acquisition" for further discussion). A reconciliation of the original cost of the goodwill from each of the above transactions to the carrying value as of June 27, 2008 and December 31, 2007 is as follows, in millions:

	June 27, 2008				
	Original Cost	Accumulated Amortization	Purchase Price Adjustments	Foreign Currency Translation Adjustment	Carrying Value
<b>Goodwill resulting from:</b>					
Cherry acquisition	\$ 95.7	\$ (18.4)	\$ —	\$ —	\$ 77.3
Leshan additional interest	3.8	—	—	—	3.8
ADI PTC business acquisition	91.3	—	0.7	—	92.0
AMIS acquisition	559.2	—	(5.7)	(0.8)	552.7
	<u>\$750.0</u>	<u>\$ (18.4)</u>	<u>\$ (5.0)</u>	<u>\$ (0.8)</u>	<u>\$ 725.8</u>
	December 31, 2007				
	Original Cost	Accumulated Amortization	Purchase Price Adjustments	Foreign Currency Translation Adjustment	Carrying Value
<b>Goodwill resulting from:</b>					
Cherry acquisition	\$ 95.7	\$ (18.4)	\$ —	\$ —	\$ 77.3
Leshan additional interest	3.8	—	—	—	3.8
ADI PTC business acquisition	91.3	—	—	—	91.3
	<u>\$190.8</u>	<u>\$ (18.4)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 172.4</u>



**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(unaudited)**

Under Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”) issued by the Financial Accounting Standards Board (“FASB”), 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 as of the first day of the fourth quarter of each year.

**Intangible Assets**

Intangible assets consist of values assigned to intellectual property, assembled workforce, customer relationships, non-compete agreements and patents resulting from the May 2006 purchase of LSI Logic Corporation’s (“LSI”) Gresham, Oregon wafer fabrication facility, the December 2007 purchase of ADI’s PTC Business and the March 2008 purchase of AMIS (see Note 3: “Acquisition” for further discussion). These are stated at cost less accumulated amortization and are amortized over their economic useful life ranging from 3 to 15 years using the straight-line method and are reviewed for impairment when facts or circumstances suggest that the carrying value of these assets may not be recoverable.

Intangible assets, net were as follows as of June 27, 2008 and December 31, 2007 (in millions):

	June 27, 2008				
	Original Cost	Accumulated Amortization	Foreign Currency Translation Adjustment	Carrying Value	Useful Life (in Years)
Intellectual property	\$ 13.9	\$ (2.5)	\$ —	\$ 11.4	5-12
Assembled workforce	6.7	(2.8)	—	3.9	5
Customer relationships	222.7	(6.2)	(0.5)	216.0	5-15
Non-compete agreements	0.4	(0.1)	—	0.3	3
Patents	16.7	(0.7)	—	16.0	12
Developed technology	80.1	(1.8)	—	78.3	12
Trademarks	8.7	(0.1)	—	8.6	15
Total intangibles	<u>\$ 349.2</u>	<u>\$ (14.2)</u>	<u>\$ (0.5)</u>	<u>\$ 334.5</u>	

  

	December 31, 2007			
	Original Cost	Accumulated Amortization	Carrying Value	Useful Life (in Years)
Intellectual property	\$ 13.9	\$ (1.7)	\$ 12.2	5-12
Assembled workforce	6.7	(2.2)	4.5	5
Customer relationships	23.7	—	23.7	5
Non-compete agreements	0.4	—	0.4	3
Patents	16.7	—	16.7	12
Total intangibles	<u>\$ 61.4</u>	<u>\$ (3.9)</u>	<u>\$ 57.5</u>	

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(unaudited)**

Amortization expense for intangible assets amounted to \$7.3 million, \$0.6 million, \$10.3 million and \$1.2 million for the quarters ended and six months ended June 27, 2008, and June 29, 2007, respectively, and is expected to be as follows over the next five years, and thereafter (in millions):

	<u>Intellectual Property</u>	<u>Assembled Workforce</u>	<u>Customer Relationships Assets</u>	<u>Non- compete Agreements</u>	<u>Patents</u>	<u>Developed Technology</u>	<u>Trademarks</u>	<u>Total</u>
Remainder of 2008	\$ 0.9	\$ 0.7	\$ 7.5	\$ 0.1	\$ 0.6	\$ 4.9	\$ 0.3	\$ 15.0
2009	1.7	1.3	18.1	0.1	1.4	6.7	0.6	29.9
2010	1.7	1.3	18.0	0.1	1.4	6.7	0.6	29.8
2011	1.2	0.6	18.0	—	1.4	6.7	0.6	28.5
2012	0.7	—	18.0	—	1.4	6.7	0.6	27.4
Thereafter	5.2	—	136.4	—	9.8	46.6	5.9	203.9
Total estimated amortization expense	<u>\$ 11.4</u>	<u>\$ 3.9</u>	<u>\$ 216.0</u>	<u>\$ 0.3</u>	<u>\$ 16.0</u>	<u>\$ 78.3</u>	<u>\$ 8.6</u>	<u>\$ 334.5</u>

#### **Debt Issuance Costs**

Debt issuance costs are capitalized and amortized over the term of the underlying agreements using the effective interest method. Upon prepayment of debt, the related unamortized debt issuance costs are charged to expense. Amortization of debt issuance costs is included in interest expense while the unamortized balance is included in other assets. Capitalized debt issuance costs totaled \$16.6 million and \$18.9 million at June 27, 2008 and December 31, 2007, respectively.

#### **Revenue Recognition**

The Company generates revenue from sales of its semiconductor products to original equipment manufacturers, electronic manufacturing service providers and distributors. The Company also generates revenue, although to a much lesser extent from manufacturing services provided to customers. The Company recognizes revenue on sales to original equipment manufacturers and electronic manufacturing service providers and sales of manufacturing services net of provisions for related sales returns and allowances when persuasive evidence of an arrangement exists, title and risk of loss pass to the customer (which is generally upon shipment), the price is fixed or determinable and collectability is reasonably assured. 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 its consolidated balance sheet. The Company recognizes the related revenue and cost of revenues when it is informed by the distributor that they have resold the products to the end user. As a result of the Company's inability to reliably estimate up front the effects of the returns and allowances with these distributors, the Company defers the related revenue and margin on sales to distributors. Although payment terms vary, most distributor agreements require payment within 30 days.

Taxes assessed by government authorities on revenue-producing transactions, including value added and excise taxes, are presented on a net basis (excluded from revenues) in the statement of operations.

Sales returns and allowances are estimated based on historical experience. The Company's original equipment manufacturer customers do not have the right to return products other than pursuant to the provisions of the Company's standard warranty. Sales to distributors, however, are typically made pursuant to agreements

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that provide return rights with respect to discontinued or slow-moving products. Under the Company's general agreements, distributors are allowed to return any product that has been removed from the price book. In addition, agreements with distributors typically contain standard stock rotation provisions permitting limited levels of product returns. However, since the Company defers recognition of revenue and gross profit on sales to distributors until the distributor resells the product, due to the inability to reliably estimate up front the effect of the returns and allowances with these distributors, sales returns and allowances have minimal impact on the results of operations. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. Given that revenues consist of a high volume of relatively similar products, actual returns and allowances and warranty claims have not traditionally fluctuated significantly from period to period, and returns and allowances and warranty provisions have historically been reasonably accurate.

The Company generally warrants that products sold to its customers will, at the time of shipment, be free from defects in workmanship and materials and conform to approved specifications. The Company's standard warranty extends for a period that is the greater of (i) three years from the date of shipment or (ii) the period of time specified in the customer's standard warranty (provided that the customer's standard warranty is stated in writing and extended to purchasers at no additional charge). At the time revenue is recognized, the Company establishes an accrual for estimated warranty expenses associated with its sales, recorded as a component of cost of revenues. In addition, the Company also offers cash discounts to customers for payments received within an agreed upon time, generally 10 days after shipment. The Company accrues reserves for cash discounts as a reduction to accounts receivable and a reduction to revenues, based on experience with each customer.

Freight and handling costs are included in cost of revenues and are recognized as period expense during the period in which they are incurred.

***Research and Development Costs***

Research and development costs are expensed as incurred.

***Share-Based Payments***

Share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period. As of June 27, 2008, the Company had no unvested awards with market conditions, although it did have outstanding awards with performance, time and service based vesting provisions.

***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 the related benefits will likely 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 is considered. If all or a portion of the remaining deferred tax

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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.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. The Company recognizes potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on its estimate of whether, and the extent to which, additional taxes will be due. If payment of these liabilities ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. Additionally, the Company reviews the collectability of its tax receivables due from various jurisdictions and when recovery is uncertain, the Company reserves amounts deemed to be uncollectible. If the receipts of these amounts occur or are assured, the reversal of the reserves previously established would result in a tax benefit in the period.

The Company adopted the provision of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2007 (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes in an enterprise’s financial statements in accordance with FASB Statement No. 109 “Accounting for Income Taxes.” The company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002.

***Foreign Currencies***

Most of the Company’s significant foreign subsidiaries conduct business 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 denominated in foreign currencies that are receivable or payable in cash are translated at current exchange rates while inventories and other non-monetary assets denominated in foreign currencies 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 within stockholders’ equity.

***Defined Benefit Plans***

The Company maintains pension plans covering certain of its foreign 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 increases for plan employees. All of these assumptions are based upon management’s judgment and actuarial analysis, considering all known trends and uncertainties.

***Asset Retirement Obligations***

The Company recognizes asset retirement obligations (“AROs”) when incurred, with the initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. In

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In addition, asset retirement costs are capitalized as part of the related asset's carrying value and are depreciated over the asset's respective useful life. The weighted average discount rate used to determine the liability as of June 27, 2008 was 4.5%. The Company's AROs consist primarily of estimated decontamination costs associated with manufacturing equipment and buildings resulting from the Company's adoption of FIN 47, "Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143" effective December 31, 2005.

**Contingencies**

The Company is involved in a variety of legal matters that arise in the normal course of business. Based on information available, management evaluates the relevant range and likelihood of potential outcomes. In accordance with SFAS No. 5, "Accounting for Contingencies," management records the appropriate liability when the amount is deemed probable and reasonably estimated.

**Fair Value Measurement**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements ("SFAS No. 157")." SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and expands on required disclosures about fair value measurement. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and is applied prospectively. In February 2008, the FASB issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"), which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. FSP 157-2 is effective upon issuance. Therefore, as of January 1, 2008, the Company adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. SFAS No. 157 defines fair value under generally accepted accounting principles. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of SFAS No. 157, except as it applies to those non-financial assets and non-financial liabilities as described in FSP 157-2, had no material impact to the Company's consolidated balance sheet and statement of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115 ("SFAS No. 159")." SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The

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standard requires that unrealized gains and losses on items for which the fair value option has been elected to be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and will be applied prospectively, although earlier adoption is permitted. As of January 1, 2008, the Company adopted SFAS No. 159 and the adoption had no material impact on the Company's consolidated financial statements as the Company elected not to measure certain financial instruments and certain other items within the scope of SFAS No. 159 at fair value.

**Note 3: Acquisition**

***Acquisition of AMIS Holdings, Inc.***

On March 17, 2008, the Company completed the purchase of AMIS, whereby AMIS became a wholly-owned subsidiary of the Company. At the effective time of the merger, each issued and outstanding share of common stock of AMIS was converted into 1.15 shares of the Company's common stock, which had an approximate value of \$897.4 million, based on the price of the Company's common stock when the merger was announced on December 13, 2007. In accordance with Emerging Issues Task Force issue No. 98-3 "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business," this transaction was determined to be a business combination, not an acquisition of assets.

AMIS is primarily engaged in designing, manufacturing and marketing integrated circuits worldwide. AMIS's results of operations have been included in the consolidated financial statements since the date of the acquisition. The Company believes the combination will enhance shareholder value by (1) accelerating its transformation from a discrete supplier to a key supplier with scale, (2) strengthening its end-market presence, facilitating its entry into new markets and deepening customer relationships, (3) obtaining significant scale and cash flow generation, and (4) achieving cost savings by leveraging its operational expertise and accelerating the ramp of activity in its Gresham, Oregon wafer fabrication facility.

The aggregate purchase price of approximately \$939.7 million included the issuance of approximately 103.2 million shares of common stock valued at approximately \$897.4 million and estimated direct transaction costs of approximately \$11.1 million. The value of the approximately 103.2 million common shares that were issued to AMIS shareholders was determined based on approximately 89.7 million shares of AMIS common stock outstanding on March 17, 2008 and the exchange ratio of 1.15 shares of the Company's common stock for each AMIS share, at a value of \$8.70 per share, the average closing price of the Company's shares of common stock for the two days prior to, and two days subsequent to the public announcement of the merger on December 13, 2007. AMIS stock options, restricted stock and warrants were exchanged for stock options, restricted stock and warrants of the Company and the exercise price per share was adjusted for the 1.15 exchange ratio. Vested stock options, restricted stock and warrants issued by the Company in exchange for options and restricted stock held by employees and directors of AMIS and warrants held by non-employees of AMIS are considered part of the purchase price. Accordingly, the purchase price includes an estimated fair value of stock options and restricted stock and warrants of approximately \$38.5 million. The purchase price excludes the estimated fair value of unvested stock options and restricted stock, of approximately \$7.3 million, which will be amortized to compensation expense over the remaining vesting period of each award, subsequent to March 17, 2008.

The fair value of the Company's options that were issued in exchange for AMIS options were estimated by using the Black-Scholes option pricing model with market assumptions. Option pricing models require the use of highly subjective market assumptions, including expected stock price volatility, which if changed can materially affect fair value estimates. The more significant assumptions used in estimating the fair value include volatility

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of 49.9%, an expected life of 4.2 years based on the age of the original award, a dividend rate of zero and a risk-free interest rate of 3.15%.

The warrants that were issued by the Company in exchange for AMIS warrants are to purchase approximately 5.3 million shares of the Company's common stock at an exercise price of \$19.41 per share. The warrants expire on December 31, 2010 and are held by a subsidiary of Nippon Mining Holdings, Inc. Pursuant to the terms of the warrants, upon the completion of the merger the warrants were converted into warrants to purchase the number of shares of the Company's common stock that would have been deliverable to the holder had such warrants been exercised immediately prior to the merger, and continue to remain outstanding on terms substantially identical to those in effect immediately prior to the merger.

The following table presents the allocation of the purchase price of AMIS, including professional fees and other related acquisition costs, to the assets acquired based on their estimated fair values (in millions):

Cash and cash equivalents	\$ 172.7
Receivables, net	83.2
Inventory	149.9
Other current assets	27.8
Property, plant and equipment	111.9
Goodwill	559.2
Intangible assets	287.8
In-process research and development	17.7
Other assets	13.6
Total assets acquired	<u>1,423.8</u>
Amounts payable to banks and long-term debt due within one year	(316.0)
Other current liabilities	(153.9)
Long-term accrued liabilities	(14.2)
Total liabilities assumed	<u>(484.1)</u>
Net assets acquired	<u>\$ 939.7</u>

Of the \$305.5 million of acquired intangible assets, \$17.7 million was assigned to in-process research and development ("IPRD") assets that were written off at the date of the acquisition in accordance with FASB Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*. The value assigned to IPRD was determined by considering the importance of products under development to the overall development plan, estimating costs to develop the purchased IPRD into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. The fair value of IPRD was determined using the income approach. The income approach recognizes that the current value of an asset or liability is premised on the expected receipt or payment of future economic benefits generated over its remaining life. A discount rate of 12% was used in the present value calculations, and was derived from a weighted-average cost of capital analysis, adjusted to reflect additional risks inherent in the acquired research and development operations.

The remaining \$287.8 million of acquired intangible assets have a weighted-average useful life of approximately 14 years. The intangible assets that make up that amount include: trademarks of \$8.7 million (15-year weighted-average useful life), customer relationships of \$199.0 million (15-year weighted-average useful life), and developed technology of \$80.1 million (12-year weighted-average useful life).

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Of the total purchase price paid of \$939.7 million, approximately \$559.2 million has been allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Among the factors that contributed to a purchase price in excess of the fair value of the net tangible and intangible assets was the acquisition of an assembled workforce of experienced semiconductor engineers. The Company expects these experienced engineers to provide the capability of developing and integrating advanced technology into next generation products. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that management determines that the value of goodwill has become impaired, the Company will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made. The \$559.2 million of goodwill was assigned to the custom products and manufacturing services segment, none of which is expected to be deductible for tax purposes.

The \$316.0 million of amounts payable to banks and long-term debt due within one year includes \$276.7 million outstanding on AMIS's senior secured term loan which required repayment upon merger or acquisition. The entire amount outstanding on the senior secured term loan as of the acquisition date was repaid by the Company prior to March 28, 2008.

The initial allocation of the purchase price is based on management estimates and assumptions, and other information compiled by management, which utilized established valuation techniques appropriate for the high-technology industry, which were either the income approach, cost approach or market approach, depending upon which was the most appropriate based on the nature and reliability of the data available. The cost approach takes into account the cost to replace (or reproduce) the asset and the effect on the asset's value of physical, functional and/or economic obsolescence that has occurred with respect to the asset. The market approach is a technique used to estimate value from an analysis of actual transactions or offerings for economically comparable assets available as of the valuation date.

The allocation of the purchase price includes \$27.6 million of accrued liabilities for estimated costs to exit certain activities of AMIS, including \$13.2 million of employee separation costs and \$14.4 million of exit costs. The \$13.2 million of employee separation costs includes \$10.0 million to involuntarily terminate or relocate approximately 90 employees performing overlapping or duplicative functions throughout AMIS and also \$3.2 million to involuntarily terminate approximately 140 manufacturing employees as a result of the planned shutdown of one of the fabrication facilities at AMIS's Pocatello, Idaho facility. The shutdown is scheduled to be completed by the end of the first quarter of 2010. The \$14.4 million of exit costs includes \$10.3 million for lease termination costs at duplicative facilities, \$3.5 million of facility decommissioning costs resulting from the planned shutdown of the fabrication facility and also \$0.6 million of costs to reorganize the structure of AMIS's subsidiaries. During the quarter ended June 27, 2008, the Company recorded adjustments of \$0.2 million to reduce the employee separation costs accrual related to the involuntary termination or relocation of employees performing overlapping or duplicative functions throughout AMIS. Additionally, during the quarter ended June 27, 2008, the Company recorded \$1.1 million of adjustments to its estimated exit costs for exiting certain insurance contracts and software license agreements. As of June 27, 2008, management of the Company had not finalized all exit plans related to the AMIS acquisition and expects to finalize the plans within the first year after the acquisition date, which will result in adjustments to the allocation of the acquisition of the purchase price that may impact accrued liabilities and goodwill.



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The following is a rollforward of the accrued liabilities for estimated costs to exit certain activities of AMIS for the quarter ended June 27, 2008:

	<u>Balance at Beginning of Period</u>	<u>Charges</u>	<u>Usage</u>	<u>Balance at End of Period</u>
Estimated employee separation costs:				
Quarter ended June 27, 2008	\$ 13.2	\$ (0.2)	\$(8.0)	\$ 5.0
Estimated costs to exit:				
Quarter ended June 27, 2008	\$ 14.4	\$ 1.1	\$(0.3)	\$ 15.2

The following pro forma consolidated results of operations for the quarter and six months ended June 27, 2008 and June 29, 2007 have been prepared as if the acquisition of AMIS had occurred at January 1, 2008 and January 1, 2007, respectively for each period (in millions, except per share data):

	<u>Quarter Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Net revenues	\$ 562.7	\$ 538.2
Net income	\$ 44.6	\$ 86.7
Net income per common share—Basic	\$ 0.11	\$ 0.30
Net income per common share—Diluted	\$ 0.11	\$ 0.28
	<u>Six Months Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Net revenues	\$ 1,093.2	\$ 1,062.8
Net income	\$ 74.6	\$ 162.1
Net income per common share—Basic	\$ 0.21	\$ 0.56
Net income per common share—Diluted	\$ 0.21	\$ 0.53

The pro forma consolidated results of operations does not purport to be indicative of the results obtained if the above acquisition had actually occurred as of the dates indicated, or of those results that may be obtained in the future. The pro forma consolidated results of operations include adjustments to net income to give effect to: depreciation of property, plant and equipment acquired; amortization of intangible assets acquired; reduced interest expense as a result of the required repayment of AMIS's senior secured term loan upon acquisition; and stock compensation expense for stock options and restricted stock units of AMIS that were exchanged for stock options and restricted stock units of the Company. This pro forma consolidated results of operations was derived, in part, from the historical consolidated financial statements of AMIS and other available information and assumptions believed to be reasonable under the circumstances.

See "Note 11: Subsequent Events" for a discussion of the Company's pending merger with Catalyst Semiconductor, Inc.

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**Note 4: Restructuring, Asset Impairment and Other, Net**

The activity related to the Company's restructuring, asset impairments and other, net for programs that were either initiated in 2008 or had not been completed as of December 31, 2007, are as follows (in millions):

**Restructuring**

*Restructuring Activities Related to the 2008 Announced Shutdown of Peistany Manufacturing Facility*

In May 2008, the Company made plans to consolidate manufacturing efforts with the closure of manufacturing facilities in Peistany, Slovakia. The wafer manufacturing that takes place at this facility will be migrated from smaller low volume silicon wafers to larger more advanced production lines. At the end of the second quarter of 2008, the Company notified 398 employees that they will be terminated and the Company expects to recognize \$3.7 million ratably from the third quarter of 2008 through the termination date of the third quarter of 2009.

*Restructuring Activities Related to the 2008 Hong Kong Design Center*

In June 2008, the Company announced plans to consolidate a portion of the design center operations in Hong Kong. It is anticipated that a total of approximately 6 employees will be terminated as a result of this consolidation effort. Employee separation charges of \$0.3 million has been included in restructuring, asset impairment and other, net on the consolidated statement of operations for the quarter ended June 27, 2008. All terminations and associated severance payments related to these activities are expected to be completed by the end of the third quarter of 2008.

	<u>Balance at Beginning of Period</u>	<u>Charges</u>	<u>Usage</u>	<u>Adjustments</u>	<u>Balance at End of Period</u>
Cash employee separation charges:					
Six months ended June 27, 2008	\$ —	\$ 0.3	\$—	\$ —	\$ 0.3

*Restructuring Activities Related to the 2008 Acquisition of AMIS*

	<u>Balance at Beginning of Period</u>	<u>Charges</u>	<u>Usage</u>	<u>Adjustments</u>	<u>Balance at End of Period</u>
Cash employee separation charges:					
Six months ended June 27, 2008	\$ —	\$ 5.4	\$(2.8)	\$ —	\$ 2.6
Exit costs:					
Six months ended June 27, 2008	\$ —	\$ 2.0	\$(0.5)	\$ —	\$ 1.5

Cumulative charges of \$7.4 million have been recognized through June 27, 2008, related to the restructuring activities around the acquisition of AMIS, of which \$3.9 million has been included in restructuring, asset impairment and other, net on the consolidated statement of operations for the quarter ended June 27, 2008. In March 2008, the Company acquired AMIS and announced plans to integrate the operations of the two companies for cost savings purposes (See Note 3: "Acquisition" for further discussion). As part of these plans, certain duplicative positions were eliminated and certain overlapping or duplicative contracts with external suppliers were renegotiated to reflect terms applicable to the combined company. During March 2008, the Company recorded employee separation charges of \$1.7 million and exit costs of \$1.8 million related to the acquisition of AMIS.

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The employee separation charges of \$5.4 million include \$1.2 million for severance benefits of 77 individuals who were employees of the Company prior to the acquisition and \$4.2 million for severance benefits of 24 individuals who were employees of AMIS prior to the acquisition. All such employees were or are required to render services until their termination date to receive these severance benefits. The termination benefits for the 24 AMIS employees are being recognized ratably from the acquisition date to their termination date. The Company expects to record an additional \$1.0 million of separation charges through the end of the fourth quarter of 2008. All terminations and associated severance payments related to these activities are expected to be completed by the end of the fourth quarter of 2008.

The exit costs of \$2.0 million were for charges incurred to terminate overlapping or duplicative software licenses under certain lease agreements with external suppliers in connection with the AMIS acquisition. All payments related to these exit costs are expected to be completed by the end of the second quarter of 2009.

*2007 Plan to Restructure Certain General and Administrative Positions in Asia*

	<u>Balance at Beginning of Period</u>	<u>Charges</u>	<u>Usage</u>	<u>Adjustments</u>	<u>Balance at End of Period</u>
Cash employee separation charges:					
Six months ended June 27, 2008	\$ 0.5	\$ —	\$(0.4)	\$ —	\$ 0.1

Cumulative charges of \$1.0 million have been recognized through June 27, 2008, related to the 2007 plan to restructure certain general and administrative positions in Asia, all of which were recognized in periods prior to the quarter ended June 27, 2008. In October 2007, the Company announced plans to change its management structure at its Aizu, Japan manufacturing facility and to outsource its healthcare professional services provided at its Seremban, Malaysia manufacturing facility. This activity was completed by the end of the first quarter of 2008. Approximately 21 employees were terminated as a direct result of this plan. These measures were initiated for cost savings purposes. Employees impacted by these announcements began to exit during the fourth quarter of 2007. As of June 27, 2008, \$0.1 million remained to be paid. All termination benefits and associated severance payments related to this charge are expected to be paid by the end of the first quarter of 2009.

*2007 Plan to Restructure Phoenix, Arizona Wafer Manufacturing*

	<u>Balance at Beginning of Period</u>	<u>Charges</u>	<u>Usage</u>	<u>Adjustments</u>	<u>Balance at End of Period</u>
Cash employee separation charges:					
Six months ended June 27, 2008	\$ —	\$ 1.0	\$(0.5)	\$ —	\$ 0.5

Cumulative charges of \$3.0 million have been recognized through June 27, 2008, related to the 2007 plan to restructure Phoenix, Arizona wafer manufacturing, of which \$0.2 million has been included in restructuring, asset impairment and other, net on the consolidated statement of operations for the quarter ended June 27, 2008. In March 2007, the Company announced plans to consolidate manufacturing efforts with the closing of one of its manufacturing facilities at its Phoenix, Arizona location. The wafer manufacturing that takes place at this facility will be transferred to the Company's offshore lower-cost manufacturing facilities, expected to be completed by the end of the third quarter of 2008. It is anticipated that a total of approximately 85 manufacturing employees will be terminated as a direct result of this consolidation effort. Also in connection with this activity, during the

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third quarter of 2007, the Company announced reductions in factory support functions at its Phoenix, Arizona and Gresham, Oregon locations which resulted in the elimination or transfer of 67 positions. These measures were initiated for cost savings purposes. Employees impacted by these announcements began to exit during the third quarter of 2007 and continued to exit through the first quarter of 2008. All terminations and associated severance payments related to these activities are expected to be completed by the end of the fourth quarter of 2008.

***Asset Impairments***

In June 2008, the Company recorded \$9.8 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. The \$9.8 million of asset impairments include \$7.9 million associated with the May 2008 announced shutdown of manufacturing facilities in Piestany, Slovakia. This announcement triggered an impairment analysis of the carrying value of the related asset group. The Company measured the amount of this asset impairment by comparing the carrying value of the respective assets to their related estimated fair values. The Company estimated future net cash flows for the period of continuing manufacturing activities and eventual disposition of the assets using price, volume, cost and salvage value assumptions that management considered reasonable in the circumstances. The impairment charge was recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value. The remaining \$1.9 million of asset impairments was for excess machinery and equipment abandoned by the Company as a result of the acquisition of AMIS.

In March 2008, the Company recorded \$2.2 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. Prior to March 2008, the Company had capitalized approximately \$5.9 million of software development costs associated with modifications and enhancements to several business process and related systems. The \$2.2 million of asset impairments resulted from the fact that the Company currently has no plans to use certain internally developed software, and management considers the cease of use of these assets as other than temporarily idled. The decision to cease development of these assets in the first quarter of 2008 was triggered by the acquisition of AMIS, which required a reallocation of corporate resources from these projects to projects associated with the integration of AMIS into the Company's computer systems (See Note 3: "Acquisition" for further discussion). The amount of the asset impairment charge taken in March 2008, of \$2.2 million, was determined based on the costs that had previously been capitalized related to the projects that have been abandoned.

***Other***

As mentioned previously in the restructuring activities related to the recent acquisition of AMIS during the six months ended June 27, 2008, the Company terminated certain overlapping or duplicative lease agreements with external suppliers for software licenses. These agreements had previously been recorded by the Company as capital lease obligations on the consolidated balance sheet. Included in restructuring, asset impairments and other, net on the statement of operations for the six months ended June 27, 2008 is a gain of \$0.7 million for the reversal of the capital lease obligation, partially offset by the write-off of the net book value of the software licenses that were included in property, plant and equipment.

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A reconciliation of the activity in the tables above to the “Restructuring, asset impairments and other, net” caption on the statement of operations for the quarter ended June 27, 2008, is as follows (in millions):

	Quarter Ended June 27, 2008	Six Months Ended June 27, 2008
<b>Restructuring</b>		
2008 Charges:		
Cash employee separation charges	\$ 4.2	\$ 6.7
Exit costs	0.2	2.0
<b>Asset impairments</b>		
2008 Charges	9.8	12.0
<b>Other</b>		
2008 gain on disposal of property, plant and equipment	—	(0.7)
	<u>\$ 14.2</u>	<u>\$ 20.0</u>

**Note 5: Balance Sheet Information**

Balance sheet information is as follows (in millions):

	June 27, 2008	December 31, 2007
<b>Receivables, net:</b>		
Accounts receivable	\$ 265.9	\$ 178.7
Less: Allowance for doubtful accounts	(7.4)	(3.5)
	<u>\$ 258.5</u>	<u>\$ 175.2</u>
<b>Inventories, net:</b>		
Raw materials	\$ 34.8	\$ 25.1
Work in process	151.6	110.2
Finished goods	141.2	85.2
	<u>\$ 327.6</u>	<u>\$ 220.5</u>
<b>Property, plant and equipment, net:</b>		
Land	\$ 32.0	\$ 28.3
Buildings	393.9	376.5
Machinery and equipment	1,364.5	1,216.2
Total property, plant and equipment	1,790.4	1,621.0
Less: Accumulated depreciation	(1,046.0)	(1,006.1)
	<u>\$ 744.4</u>	<u>\$ 614.9</u>
<b>Accrued expenses:</b>		
Accrued payroll	\$ 66.6	\$ 37.5
Sales related reserves	37.6	39.9
Restructuring reserves	5.0	0.5
Acquisition related restructuring costs	20.2	—
Accrued pension liability	0.2	0.2
Other	42.8	23.2
	<u>\$ 172.4</u>	<u>\$ 101.3</u>
<b>Accumulated other comprehensive income:</b>		
Foreign currency translation adjustments	\$ (1.0)	\$ 0.1
Amortization of prior service cost of defined benefit pension plan	(0.2)	(0.5)
Prior service cost from legal plan amendment	(0.3)	(0.3)
Net unrealized gains and adjustments related to cash flow hedges	0.1	0.2
	<u>\$ (1.4)</u>	<u>\$ (0.5)</u>

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The activity related to the Company's warranty reserves for the six months ended June 27, 2008 is as follows (in millions):

Balance as of December 31, 2007	\$ 2.2
Provision	0.4
Reserves acquired from AMIS	0.8
Usage	(0.3)
Reserved released	—
Balance as of June 27, 2008	<u>\$ 3.1</u>

The activity related to the Company's warranty reserves for the six months ended June 29, 2007 is as follows (in millions):

Balance as of December 31, 2006	\$ 2.4
Provision	0.8
Usage	(0.4)
Reserved released	—
Balance as of June 29, 2007	<u>\$ 2.8</u>

The Company maintains a defined benefit plan for some of its foreign subsidiaries. The Company recognizes a liability in its financial statements for the unfunded status of its pension plans. As of June 27, 2008 and December 31, 2007, the total accrued pension liability net of pension assets was \$6.7 million and \$13.4 million, respectively, of which the current portion of \$0.1 million and \$0.2 million, respectively, were classified as accrued expenses. Included within accumulated other comprehensive income at June 27, 2008 was \$0.2 million related to unrecognized prior service cost for these plans. The components of the Company's net periodic pension expense for the quarters ended June 27, 2008 and June 29, 2007 are as follows (in millions):

	<u>Quarter Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Service cost	\$ 0.4	\$ 0.2
Interest cost	0.3	0.3
Expected return on plan assets	(0.2)	(0.2)
Amortization of prior service cost	0.1	0.1
Total net periodic pension cost	<u>\$ 0.6</u>	<u>\$ 0.4</u>

	<u>Six Months Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Service cost	\$ 0.8	\$ 0.5
Interest cost	0.6	0.6
Expected return on plan assets	(0.4)	(0.4)
Amortization of prior service cost	0.2	0.2
Total net periodic pension cost	<u>\$ 1.2</u>	<u>\$ 0.9</u>

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**  
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**Note 6: Long-Term Debt**

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

	June 27, 2008	December 31, 2007
<b>Senior Bank Facilities:</b>		
Term Loan, interest payable quarterly at 4.5506% and 6.5800%, respectively	\$ 173.3	\$ 173.7
Revolver	—	—
	173.3	173.7
Zero Coupon Convertible Senior Subordinated Notes due 2024 <sup>(1)</sup>	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025 <sup>(1)</sup>	95.0	95.0
2.625% Convertible Senior Subordinated Notes due 2026 <sup>(1)</sup>	484.0	484.0
2.25% Note payable to Japanese bank due 2008 through 2010, interest payable semi-annually	8.3	9.6
Loan with Philippine banks due 2008 through 2012, interest payable quarterly at 3.7100% and 6.2475%, respectively	23.4	25.0
Loan with Chinese bank due 2009, interest payable quarterly at 4.0013% and 6.1100%, respectively	14.0	14.0
Loan with Chinese bank due 2009, interest payable quarterly at 4.0013% and 6.1100%, respectively	6.0	6.0
Loan with Chinese bank due 2008 through 2013, interest payable semi-annually at 4.4150% and 6.0488%, respectively.	7.5	8.2
Loan with Chinese bank due 2008 through 2009, interest payable semi-annually at 3.8869% and 6.3375%, respectively.	13.5	15.7
Loan with Chinese bank due 2009, interest payable semi-annually at 3.8338% and 6.3413%, respectively	5.0	5.0
Loan with Belgian bank, interest payable weekly at 4.106%	36.4	—
5.0% Note payable to Oregon State due 2009	0.5	0.5
Short-term loan with Japanese bank due 2009, interest payable quarterly at 1.875%	4.6	—
Capital lease obligations	100.6	62.7
	1,232.1	1,159.4
Less: Current maturities	(80.2)	(30.8)
	<u>\$1,151.9</u>	<u>\$ 1,128.6</u>

(1) The Zero Coupon Convertible Senior Subordinated Notes due 2024, the 1.875% Convertible Senior Subordinated Notes due 2025 and the 2.625% Convertible Senior Subordinated Notes due 2026 may be purchased by the Company at the option of the holders of the notes on April 15, 2010, December 15, 2012 and December 15, 2013, respectively.

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Annual maturities relating to the Company's long-term debt as of June 27, 2008 are as follows (in millions):

		<b>Actual</b>
		<b>Maturities</b>
Remainder of	2008	\$ 19.8
	2009	113.0
	2010	292.2
	2011	28.7
	2012	127.0
	Thereafter	651.4
	Total	<u>\$ 1,232.1</u>

**June 2008 Belgian Loan**

In June 2008, one of the Company's European subsidiaries entered into a loan with a Belgian Bank, secured by certain assets, to pay off the March 2008 Short-Term Bridge Loan. The loan, which had a balance of \$36.4 million as of June 27, 2008 (based on the euro-to-dollar exchange rate in effect at that date), bears interest at the European Overnight Index Average ("EONIA") plus 0.4%, with interest payable weekly. The loan amount is subject to an eligible borrowing calculation as defined in the loan agreement. The term of the agreement is six months, which automatically extends and can be cancelled thereafter by a 90 day written notification

**April 2008 Japan Loan**

In April 2008, the Company's Japanese subsidiary entered into a one-year loan agreement with a Japanese bank to finance capital expenditures and other general corporate purposes. The loan, which had a balance of \$4.6 million at June 28, 2008 (based on the yen-to-dollar exchange rate in effect at that date), bears interest at an annual rate of 1.875%, with interest payable quarterly.

**March 2008 Short-Term Bridge Loan**

As part of the AMIS acquisition in March 2008, the Company assumed the obligations under a short-term bridge loan entered into by the Company's Belgian subsidiary. The bridge loan was with a Belgian bank for 25.0 million Euros originally due May 31, 2008 and extended until July 31, 2008 with the proceeds to be used to finance capital expenditures and other general corporate purposes. The loan interest was paid weekly based on the one week EURO Interbank Offered Rate ("Euribor") plus 0.5%. In June 2008, the Short-Term Bridge Loan was repaid with the proceeds from the June 2008 Belgian loan.

**Capital Lease Obligations**

The Company has various capital lease obligations primarily for machinery and equipment. In March 2008, the Company sold assets with a net book value of \$26.2 million for \$33.7 million to a leasing agency under a sale-leaseback arrangement. We deferred a gain on the transaction in the amount of \$7.5 million. Concurrently, the Company purchased the assets under a capital lease agreement with a net present value of minimum lease payments of \$29.3 million, which will be depreciated over the lease term of five years. In June 2008, the Company purchased assets under capital leases agreement with a net present value of minimum lease payments of \$14.1 million, which will be depreciated over the lease term of five years.



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**Debt Guarantees**

The Company is the sole issuer of the zero coupon convertible senior subordinated notes due 2024, the 1.875% convertible senior subordinated notes due 2025 and the 2.625% convertible senior subordinated notes due 2026 (collectively, “the Notes”). The Company’s domestic subsidiaries, with the exception of domestic subsidiaries acquired from AMIS, (collectively, the “Guarantor Subsidiaries”) fully and unconditionally guarantee on a joint and several basis the Company’s obligations under the Notes. The Guarantor Subsidiaries include SCI LLC, Semiconductor Components Industries of Rhode Island, Inc, as well as holding companies whose net assets consist primarily of investments in the joint venture in Leshan, China and equity interests in the Company’s other foreign subsidiaries. The Company’s other remaining subsidiaries (collectively, the “Non-Guarantor Subsidiaries”) are not guarantors of the Notes. Condensed consolidating financial information for the issuer of the notes, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries is as follows (in millions):

	Issuer	Guarantor		Non-	Eliminations	Total
	ON Semiconductor Corporation <sup>(1)</sup>	SCI LLC	Other Subsidiaries	Guarantor Subsidiaries		
<b>As of June 27, 2008</b>						
Cash and cash equivalents	\$ —	\$ 218.9	\$ —	\$ 102.3	\$ —	\$ 321.2
Receivables, net	—	28.8	—	229.7	—	258.5
Inventories, net	—	26.8	—	298.3	2.5	327.6
Other current assets	—	9.0	—	61.7	—	70.7
Deferred income taxes	—	(1.8)	—	2.1	—	0.3
Total current assets	—	281.7	—	694.1	2.5	978.3
Property, plant and equipment, net	—	171.6	3.5	569.3	—	744.4
Deferred income taxes	—	—	—	—	—	—
Goodwill	—	48.1	73.0	939.2	—	1,060.3
Investments and other assets	1,665.8	1,604.1	37.4	2,397.1	(5,649.3)	55.1
Total assets	<u>\$ 1,665.8</u>	<u>\$ 2,105.5</u>	<u>\$ 113.9</u>	<u>\$ 4,599.7</u>	<u>\$ (5,646.8)</u>	<u>\$ 2,838.1</u>
Accounts payable	\$ —	\$ 29.7	\$ 0.2	\$ 176.3	\$ —	\$ 206.2
Accrued expenses and other current liabilities	0.5	73.8	1.3	180.6	1.7	257.9
Deferred income on sales to distributors	—	28.7	—	95.1	—	123.8
Total current liabilities	0.5	132.2	1.5	452.0	1.7	587.9
Long-term debt	839.0	244.3	—	68.6	—	1,151.9
Other long-term liabilities	—	17.8	0.1	29.5	—	47.4
Deferred Income Taxes	—	(0.7)	—	1.4	—	0.7
Intercompany	(207.9)	(114.6)	(13.5)	130.5	205.5	—
Total liabilities	<u>631.6</u>	<u>279.0</u>	<u>(11.9)</u>	<u>682.0</u>	<u>207.2</u>	<u>1,787.9</u>
Minority interests in consolidated subsidiaries	—	—	—	—	16.0	16.0
Stockholders’ equity (deficit)	1,034.2	1,826.5	125.8	3,917.7	(5,870.0)	1,034.2
Liabilities, minority interests and stockholders’ equity (deficit)	<u>\$ 1,665.8</u>	<u>\$ 2,105.5</u>	<u>\$ 113.9</u>	<u>\$ 4,599.7</u>	<u>\$ (5,646.8)</u>	<u>\$ 2,838.1</u>

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	<u>Issuer</u> <u>ON Semiconductor</u> <u>Corporation (1)</u>	<u>Guarantor</u>		<u>Non-</u> <u>Guarantor</u> <u>Subsidiaries</u>	<u>Eliminations</u>	<u>Total</u>
		<u>SCI LLC</u>	<u>Other</u> <u>Subsidiaries</u>			
<b>As of December 31, 2007</b>						
Cash and cash equivalents	\$ —	\$ 192.1	\$ —	\$ 82.5	\$ —	\$ 274.6
Receivables, net	—	26.4	—	148.8	—	175.2
Inventories, net	—	33.9	—	185.0	1.6	220.5
Other current assets	—	7.8	—	60.5	—	68.3
Deferred income taxes	—	(1.8)	—	8.5	—	6.7
Total current assets	—	258.4	—	485.3	1.6	745.3
Property, plant and equipment, net	—	157.3	3.7	453.9	—	614.9
Goodwill	—	48.3	73.0	108.6	—	229.9
Investments and other assets	647.7	570.9	43.2	25.1	(1,239.4)	47.5
Total assets	<u>\$ 647.7</u>	<u>\$1,034.9</u>	<u>\$ 119.9</u>	<u>\$ 1,072.9</u>	<u>\$ (1,237.8)</u>	<u>\$1,637.6</u>
Accounts payable	\$ —	\$ 27.7	\$ 0.2	\$ 135.6	\$ —	\$ 163.5
Accrued expenses and other current liabilities	0.6	56.6	1.3	76.8	1.7	137.0
Deferred income on sales to distributors	—	30.1	—	90.3	—	120.4
Total current liabilities	0.6	114.4	1.5	302.7	1.7	420.9
Long-term debt	839.0	213.6	—	76.0	—	1,128.6
Other long-term liabilities	—	29.8	—	17.0	—	46.8
Deferred income taxes	—	(1.8)	—	8.7	—	6.9
Intercompany	(207.8)	(112.1)	(13.4)	127.8	205.5	—
Total liabilities	631.8	243.9	(11.9)	532.2	207.2	1,603.2
Minority interests in consolidated subsidiaries	—	—	—	—	18.5	18.5
Stockholders' equity (deficit)	15.9	791.0	131.8	540.7	(1,463.5)	15.9
Liabilities, minority interests and stockholders' equity (deficit)	<u>\$ 647.7</u>	<u>\$1,034.9</u>	<u>\$ 119.9</u>	<u>\$ 1,072.9</u>	<u>\$ (1,237.8)</u>	<u>\$1,637.6</u>

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	Issuer	Guarantor		Non-Guarantor Subsidiaries	Eliminations	Total
	ON Semiconductor Corporation <sup>(1)</sup>	SCI LLC	Other Subsidiaries			
<b>For the quarter ended June 27, 2008</b>						
Revenues	\$ —	\$ 113.7	\$ 3.4	\$ 750.5	\$ (304.9)	\$ 562.7
Cost of revenues	—	108.7	0.3	557.0	(294.9)	371.1
Gross profit	—	5.0	3.1	193.5	(10.0)	191.6
Research and development	—	6.4	2.5	68.9	(10.3)	67.5
Selling and marketing	—	13.1	0.4	26.7	(2.3)	37.9
General and administrative	—	(5.0)	0.2	35.7	1.0	31.9
Amortization of acquisition related intangible assets	—	0.4	—	6.3	—	6.7
Restructuring, asset impairments and other, net	—	2.2	—	12.0	—	14.2
Total operating expenses	—	17.1	3.1	149.6	(11.6)	158.2
Operating income (loss)	—	(12.1)	—	43.9	1.6	33.4
Interest expense, net	(4.5)	(1.7)	—	(1.6)	—	(7.8)
Other	—	1.6	—	(0.4)	—	1.2
Equity in earnings	49.1	58.3	(1.7)	(1.4)	(104.3)	—
Income (loss) before income taxes, and minority interests	44.6	46.1	(1.7)	40.5	(102.7)	26.8
Income tax provision	—	12.8	—	4.3	—	17.1
Minority interests	—	—	—	—	0.7	0.7
Net income (loss)	<u>\$ 44.6</u>	<u>\$ 58.9</u>	<u>\$ (1.7)</u>	<u>\$ 44.8</u>	<u>\$ (102.0)</u>	<u>\$ 44.6</u>
<b>For the quarter ended June 29, 2007</b>						
Revenues	\$ —	\$ 132.0	\$ 4.5	\$ 470.6	\$ (225.9)	\$ 381.2
Cost of revenues	—	113.9	0.4	347.9	(227.0)	235.2
Gross profit	—	18.1	4.1	122.7	1.1	146.0
Research and development	—	7.7	2.8	21.9	—	32.4
Selling and marketing	—	11.6	0.3	11.4	—	23.3
General and administrative	—	0.4	—	18.4	—	18.8
Restructuring, asset impairments and other, net	—	—	—	—	—	—
Total operating expenses	—	19.7	3.1	51.7	—	74.5
Operating income (loss)	—	(1.6)	1.0	71.0	1.1	71.5
Interest expense, net	(4.5)	(0.7)	—	(1.3)	—	(6.5)
Other	—	(0.9)	—	0.9	—	—
Equity in earnings	67.8	69.2	1.5	—	(138.5)	—
Income (loss) before income taxes, and minority interests	63.3	66.0	2.5	70.6	(137.4)	65.0
Income tax provision	—	0.3	—	(1.7)	—	(1.4)
Minority interests	—	—	—	—	(0.3)	(0.3)
Net income (loss)	<u>\$ 63.3</u>	<u>\$ 66.3</u>	<u>\$ 2.5</u>	<u>\$ 68.9</u>	<u>\$ (137.7)</u>	<u>\$ 63.3</u>

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	Issuer	Guarantor		Non-	Eliminations	Total
	ON Semiconductor Corporation <sup>(1)</sup>	SCI LLC	Other Subsidiaries	Guarantor Subsidiaries		
<b>For the six months ended June 27, 2008</b>						
Revenues	\$ —	\$ 230.6	\$ 7.0	\$ 1,298.6	\$ (551.6)	\$ 984.6
Cost of revenues	—	214.1	0.7	969.4	(537.8)	646.4
Gross profit	—	16.5	6.3	329.2	(13.8)	338.2
Research and development	—	13.1	5.2	100.9	(11.4)	107.8
Selling and marketing	—	25.0	0.8	40.5	(2.6)	63.7
General and administrative	—	(7.2)	0.4	61.6	0.9	55.7
In Process research and development	—	—	—	17.7	—	17.7
Amortization of acquisition related intangible assets	—	0.4	—	8.7	—	9.1
Restructuring, asset impairments and other, net	—	6.8	—	13.2	—	20.0
Total operating expenses	—	38.1	6.4	242.6	(13.1)	274.0
Operating income (loss)	—	(21.6)	(0.1)	86.6	(0.7)	64.2
Interest expense, net	(9.1)	(2.3)	—	(3.7)	—	(15.1)
Other	—	3.7	—	(4.4)	—	(0.7)
Loss on debt prepayment	—	—	—	—	—	—
Equity in earnings	74.5	93.3	(2.5)	(1.4)	(163.9)	—
Income (loss) before income taxes, and minority interests	65.4	73.1	(2.6)	77.1	(164.6)	48.4
Income tax provision	—	13.0	—	3.0	—	16.0
Minority interests	—	—	—	—	1.0	1.0
Net income (loss)	\$ 65.4	\$ 86.1	\$ (2.6)	\$ 80.1	\$ (163.6)	\$ 65.4
Net cash provided by operating activities	\$ —	\$ 54.7	\$ 0.1	\$ 124.0	\$ —	\$ 178.8
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(20.2)	(0.1)	(24.6)	—	(44.9)
Deposits utilized for purchases of property, plant and equipment	—	—	—	0.1	—	0.1
Purchases of intangible assets	—	—	—	—	—	—
Proceeds from sales of available-for-sale securities	—	—	—	—	—	—
Purchase of a business	—	(11.1)	—	172.7	—	161.6
Proceeds from sales of property, plant and equipment	—	38.6	—	—	—	38.6
Net cash used in investing activities	—	7.3	(0.1)	148.2	—	155.4
Cash flows from financing activities:						
Intercompany loans	—	(421.5)	—	421.5	—	—
Intercompany loan repayments	—	385.3	—	(385.3)	—	—
Proceeds from debt issuance	—	—	—	44.1	—	44.1
Proceeds from issuance of common stock under the employee stock purchase plan	—	1.0	—	—	—	1.0
Proceeds from exercise of stock options	—	9.9	—	—	—	9.9
Repurchase of Treasury Stock	—	(0.7)	—	—	—	(0.7)
Dividends to minority shareholder of consolidated subsidiary	—	3.3	—	(4.8)	—	(1.5)
Equity injections from parent	—	—	3.3	—	—	3.3
Subsidiary declared dividend	—	—	(3.3)	—	—	(3.3)
Proceeds from issuance of common stock, net of issuance costs	—	—	—	—	—	—
Payment of capital lease obligation	—	(12.1)	—	(0.8)	—	(12.9)
Payment of debt issuance costs	—	—	—	—	—	—
Repayment of long term debt	—	(0.4)	—	(324.9)	—	(325.3)
Net cash provided by (used in) financing activities	—	(35.2)	—	(250.2)	—	(285.4)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(2.2)	—	(2.2)
Net increase (decrease) in cash and cash equivalents	—	26.8	—	19.8	—	46.6
Cash and cash equivalents, beginning of period	—	192.1	—	82.5	—	274.6
Cash and cash equivalents, end of period	\$ —	\$ 218.9	\$ —	\$ 102.3	\$ —	\$ 321.2

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	Issuer	Guarantor		Non-	Eliminations	Total
	ON Semiconductor Corporation <sup>(1)</sup>	SCI LLC	Other Subsidiaries	Guarantor Subsidiaries		
<b>For the six months ended June 29, 2007</b>						
Revenues	\$ —	\$ 270.2	\$ 7.0	\$ 925.5	\$ (447.3)	\$755.4
Cost of revenues	—	230.3	0.9	692.0	(450.4)	472.8
Gross profit	—	39.9	6.1	233.5	3.1	282.6
Research and development	—	14.6	6.0	42.6	—	63.2
Selling and marketing	—	24.1	0.6	21.5	—	46.2
General and administrative	—	148.0	(150.0)	41.0	—	39.0
Restructuring, asset impairments and other, net	—	—	—	—	—	—
Total operating expenses	—	186.7	(143.4)	105.1	—	148.4
Operating income (loss)	—	(146.8)	149.5	128.4	3.1	134.2
Interest expense, net	(9.1)	0.8	(2.1)	(3.0)	—	(13.4)
Other	—	(1.8)	—	1.3	—	(0.5)
Loss on debt prepayment	—	(0.1)	—	—	—	(0.1)
Equity in earnings	126.4	269.2	2.1	—	(397.7)	—
Income (loss) before income taxes, and minority interests	117.3	121.3	149.5	126.7	(394.6)	120.2
Income tax provision	—	2.7	—	(4.7)	—	(2.0)
Minority interests	—	—	—	—	(0.9)	(0.9)
Net income (loss)	<u>\$ 117.3</u>	<u>\$ 124.0</u>	<u>\$ 149.5</u>	<u>\$ 122.0</u>	<u>\$ (395.5)</u>	<u>\$117.3</u>
Net cash provided by (used in) operating activities	<u>\$ —</u>	<u>\$ (188.8)</u>	<u>\$ 179.6</u>	<u>\$ 127.7</u>	<u>\$ —</u>	<u>\$118.5</u>
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(26.0)	—	(50.6)	—	(76.6)
Deposits utilized for purchases of property, plant and equipment	—	—	—	0.2	—	0.2
Purchases of intangible assets	—	—	—	—	—	—
Proceeds from sales of available-for-sale securities	—	—	—	—	—	—
Proceeds from sales of property, plant and equipment	—	0.4	—	8.8	—	9.2
Net cash provided by (used in) investing activities	—	(25.6)	—	(41.6)	—	(67.2)
Cash flows from financing activities:						
Intercompany loans	—	(269.8)	—	269.8	—	—
Intercompany loan repayments	—	538.2	(179.6)	(358.6)	—	—
Proceeds from debt issuance	—	0.5	—	—	—	0.5
Proceeds from issuance of common stock under the employee stock purchase plan	—	2.3	—	—	—	2.3
Proceeds from exercise of stock options and warrants	—	28.8	—	—	—	28.8
Repurchase of treasury stock	—	(55.2)	—	—	—	(55.2)
Dividends to minority shareholder of consolidated subsidiary	—	5.3	—	(8.1)	—	(2.8)
Equity injections from parent	—	—	5.3	—	—	5.3
Subsidiary declared dividend	—	—	(5.3)	—	—	(5.3)
Proceeds from issuance of common stock, net of issuance costs	—	—	—	—	—	—
Payment of capital lease obligation	—	(7.1)	—	(1.0)	—	(8.1)
Payment of debt issuance costs	—	(0.4)	—	—	—	(0.4)
Repayment of long term debt	—	(24.4)	—	(4.4)	—	(28.8)
Net cash provided by (used in) financing activities	—	218.2	(179.6)	(102.3)	—	(63.7)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(0.6)	—	(0.6)
Net increase (decrease) in cash and cash equivalents	—	3.8	—	(16.8)	—	(13.0)
Cash and cash equivalents, beginning of period	—	186.7	—	82.1	—	268.8
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 190.5</u>	<u>\$ —</u>	<u>\$ 65.3</u>	<u>\$ —</u>	<u>\$255.8</u>

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(1) 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, SCI LLC, its primary operating subsidiary, processes all cash receipts and disbursements on its behalf.

**Note 7: Common Stock and Treasury Stock**

Income per share calculations for the quarter and six months ended June 27, 2008 and June 29, 2007, is as follows (in millions, except per share data):

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Net income	\$ 44.6	\$ 63.3	\$ 65.4	\$ 117.3
Diluted net income applicable to common stock	\$ 44.6	\$ 63.3	\$ 65.4	\$ 117.3
Basic weighted average common shares outstanding	397.2	290.9	352.8	290.2
Add: Incremental shares for :				
Dilutive effect of equity based compensation	5.1	7.7	3.8	8.0
1.875% convertible senior subordinated notes	3.5	4.7	3.5	4.7
2.625% convertible senior subordinated notes	—	0.9	—	0.9
Convertible zero coupon senior subordinated notes	—	2.3	—	2.3
Diluted weighted average common shares outstanding	<u>405.8</u>	<u>306.5</u>	<u>360.1</u>	<u>306.1</u>
Income per common share				
Basic:	<u>\$ 0.11</u>	<u>\$ 0.22</u>	<u>\$ 0.19</u>	<u>\$ 0.40</u>
Diluted:	<u>\$ 0.11</u>	<u>\$ 0.21</u>	<u>\$ 0.18</u>	<u>\$ 0.38</u>

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period.

The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. Common shares relating to the employee stock options where the exercise price exceeded the average market price of the Company's common shares or the assumed exercise would have been anti-dilutive during these periods were also excluded from the diluted earnings per share calculation. The excluded option shares were 21.8 million and 7.7 million for the quarters ended June 27, 2008 and June 29, 2007, respectively and 20.1 million and 6.4 million for the six months ended June 27, 2008, and June 29, 2007, respectively.

Additionally, warrants held by non-employees to purchase 5.3 million shares of the Company's common stock, which were obtained from the AMIS acquisition, were outstanding as of June 27, 2008, but were not included in the computation of diluted net income per share as the effect would have been anti-dilutive under the treasury stock method.

For the quarter and six months ended June 27, 2008, the assumed conversion of the zero coupon convertible senior subordinated notes due 2024 was also excluded in determining diluted earnings per share as the impact would have been anti-dilutive. The zero coupon convertible senior subordinated notes are convertible into cash up to the par value of \$260.0 million, based on a conversion price of \$9.82 per share. The excess of fair value

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over par value is convertible into stock. As of June 27, 2008 the Company's common stock traded below \$9.82 per share; thus, the effects of an assumed conversion would have been anti-dilutive and was therefore excluded.

For the quarter and six months ended June 27, 2008, the assumed conversion of the 2.625% convertible senior subordinated notes was also excluded in determining diluted earnings per share. The 2.625% convertible senior subordinated notes are convertible into cash up to the par value of \$484.0 million, based on an initial conversion price of approximately \$10.50 per share. The excess of fair value over par value is convertible into stock. As of June 27, 2008 the Company's common stock traded below \$10.50 per share; thus, the effects of an assumed conversion would have been anti-dilutive and was therefore excluded.

Treasury Stock is recorded at cost and is presented as a reduction of stockholders' equity in the accompanying consolidated financial statements. None of these shares had been reissued or retired as of June 27, 2008, but may be reissued or retired by the Company at a later date.

**Note 8: Employee Stock Benefit Plans**

There was an aggregate of 25.9 million and 21.0 million shares of common stock available for grant under the Company's stock option plans at June 27, 2008 and December 31, 2007, respectively. During the quarter ended March 28, 2008, 5.0 million shares were added to the shares available for issuance under the Company's stock plans pursuant to the acquisition of AMIS.

*Stock Options*

The fair value of each option grant is estimated on the date of grant using a lattice-based option valuation model. The volatility input is developed using implied volatility. The expected term of options represents the period of time that the options are expected to be outstanding. The expected term disclosed below is computed using the lattice model's estimated fair value as an input to the Black-Scholes formula and solving for expected term. The risk-free rate is based on zero-coupon U.S. Treasury yields in effect at the date of grant with the same period as the expected term. The weighted-average estimated fair value of stock options granted during the quarters and six months ended June 27, 2008 and June 29, 2007 was \$4.31 and \$4.25 per share, and \$3.32 and \$3.65 per share, respectively. The weighted-average assumptions associated with the stock options granted during the period are as follows:

	Quarter Ended June 27, 2008	Quarter Ended June 29, 2007
Volatility	49.9%	41.5%
Risk-free interest rate	2.8%	4.9%
Expected term	5.3 years	4.2 years

  

	Six Months Ended June 27, 2008	Six Months Ended June 29, 2007
Volatility	54.9%	41.2%
Risk-free interest rate	2.8%	4.5%
Expected term	5.2 years	4.2 years

Pre-vesting forfeitures were estimated to be approximately 13% for both the quarters and the six months ended June 27, 2008 and June 29, 2007, based on historical experience.

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A summary of stock option transactions for all stock option plans follows (in millions, except per share and term data):

	Six Months Ended June 27, 2008			Aggregate Intrinsic Value (In-The- Money)
	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	
Outstanding at December 31, 2007	21.5	\$ 7.08		
Granted	7.2	\$ 6.61		
Acquired in AMIS transaction	9.4	\$ 9.14		
Exercised	(1.6)	\$ 6.27		
Cancelled	(2.1)	\$ 9.24		
Outstanding at June 27, 2008	<u>34.4</u>	<u>\$ 7.63</u>	<u>6.8</u>	<u>\$ 80.9</u>
Exercisable at June 27, 2008	<u>16.9</u>	<u>\$ 7.82</u>	<u>5.1</u>	<u>\$ 44.9</u>

Additional information about stock options outstanding at June 27, 2008 with exercise prices less than or above \$9.40 per share, the closing price at June 27, 2008, follows (number of shares in millions):

	Exercisable		Unexercisable		Total	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
<u>Exercise Prices</u>						
Less than \$9.40	11.9	\$ 5.62	15.2	\$ 7.04	27.1	\$ 6.42
Above \$9.40	5.0	\$ 13.03	2.3	\$ 10.26	7.3	\$ 12.16
Total outstanding	<u>16.9</u>	<u>\$ 7.82</u>	<u>17.5</u>	<u>\$ 7.45</u>	<u>34.4</u>	<u>\$ 7.63</u>

*Restricted Stock Units and Awards*

Restricted stock units that vest over two to four years with service-based requirements as well as restricted stock units that vest based on performance-based requirements are payable in shares of the Company's stock upon vesting. The following table presents a summary of the status of the Company's restricted stock units granted to certain officers, directors, and employees of the Company as of June 27, 2008, and changes during the six months ended June 27, 2008, follows (number of shares in millions):

	Six Months Ended June 27, 2008	
	Number of Shares	Weighted- Average Grant Date Fair Value
Nonvested shares of restricted stock units at December 31, 2007	1.5	\$ 10.55
Granted	2.2	\$ 8.86
Acquired in AMIS transaction	1.1	\$ 5.22
Released	(0.3)	\$ 7.33
Forfeited	(0.1)	\$ 5.84
Nonvested shares of restricted stock units at June 27, 2008	<u>4.4</u>	<u>\$ 8.80</u>



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During the six months ending June 27, 2008, the Company granted 0.1 million in restricted stock awards with a weighted average grant date fair value of \$6.03 per share to members of the Board of Directors. The awards vested and were issued immediately upon the effective date of the grant.

*Employee Stock Purchase Plans*

As of June 27, 2008, there were 2.0 million shares available for issuance under the Employee Stock Purchase Plan. The Company continues to use the Black-Scholes option-pricing model to calculate the fair value of shares issued under the 2000 Employee Stock Purchase Plan. The weighted-average fair value of shares issued under the Employee Stock Purchase Plan during the quarters and six months ended June 27, 2008 and June 29, 2007 was \$2.06 per share and \$2.21 per share, and \$2.18 per share and \$1.48 per share, respectively. The weighted-average assumptions used in the pricing model are as follows:

<u>Employee Stock Purchase Plan</u>	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Expected life (in years)	0.25	0.25	0.25	0.25
Risk-free interest rate	1.4%	4.9%	2.3%	4.9%
Volatility	60.0%	48.0%	58.0%	43.0%

*Share-Based Compensation Expense*

Total share-based compensation expense, related to the Company's stock options, restricted stock units and employee stock purchase plan, recognized for the quarter and six months ended June 27, 2008 and June 29, 2007 was comprised as follows (in millions, except per share data):

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Cost of revenues	\$ 2.3	\$ 1.1	\$ 3.7	\$ 2.1
Research and development	1.3	0.6	2.2	1.2
Selling and marketing	1.3	0.7	2.2	1.2
General and administrative	3.4	1.1	6.9	2.3
Share-based compensation expense before income taxes	8.3	3.5	15.0	6.8
Related income tax benefits <sup>(1)</sup>	—	—	—	—
Share-based compensation expense, net of taxes	<u>\$ 8.3</u>	<u>\$ 3.5</u>	<u>\$ 15.0</u>	<u>\$ 6.8</u>

(1) Most of the Company's share-based compensation relates to its domestic subsidiaries which have historically experienced recurring net operating losses; therefore, no related income tax benefits are expected.

At June 27, 2008, total unrecognized estimated compensation cost net of estimated forfeitures related to non-vested stock options and non-vested restricted stock units granted prior to that date was \$34.5 million and \$25.6 million, respectively. The total intrinsic value of stock options exercised during the quarter and six months ended June 27, 2008 was \$3.6 million and \$4.1 million, respectively. The Company recorded cash received from the exercise of stock options of \$9.3 million and \$9.9 million and recorded no related tax benefits during the quarter and six months ended June 27, 2008, respectively.

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**Note 9: Commitments and Contingencies****Leases**

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of June 27, 2008 (in millions):

Remainder of 2008 <sup>(1)</sup>	\$ 11.1
2009	18.6
2010	14.6
2011	11.8
2012	9.4
Thereafter	16.4
Total	<u>\$ 81.9</u>

- (1) Minimum payments have not been reduced by minimum sublease rentals of \$0.4 million due in the future under subleases. Minimum payments include the interest portion of payments for capital lease obligations.

**Other Contingencies**

The Company's headquarters and 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 previously filed 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.

Manufacturing facilities in Slovakia and in the Czech Republic have ongoing remediation projects to respond to releases of hazardous substances that occurred during the years that these facilities were operated by government-owned entities. In each case, these remediation projects consist primarily of monitoring groundwater wells located on-site and off-site with additional action plans developed to respond in the event activity levels are exceeded at each of the respective locations. The governments of the Czech Republic and Slovakia have agreed to indemnify the Company and the respective subsidiaries, subject to specified limitations, for remediation costs associated with this historical contamination. Based upon the information available, total future remediation costs to the Company are not expected to be material.

The Company's design center in East Greenwich, Rhode Island has adjoining property that has localized soil contamination. In connection with the purchase of the facility, the Company entered into a Settlement Agreement and Covenant Not to Sue with the State of Rhode Island. This agreement requires that remedial actions be undertaken and a quarterly groundwater monitoring program be initiated by the former owners of the property. Based on the information available, any costs to the Company in connection with this matter are not expected to be material.

As a result of the acquisition of AMIS, the Company is a "primary responsible party" to an environmental remediation and cleanup at AMIS's former corporate headquarters in Santa Clara, California. Costs incurred by AMIS include implementation of the clean-up plan, operations and maintenance of remediation systems, and other project management costs. However, AMIS's former parent company, a subsidiary of Nippon Mining

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contractually agreed to indemnify AMIS and the Company for any obligation relating to environmental remediation and cleanup at this location. In accordance with Statement of Position (SOP) No. 96-1, "Environmental Remediation Liabilities," the Company has not offset the receivable from Nippon Mining's subsidiary against the estimated liability on the consolidated balance sheets. Therefore, a receivable from Nippon Mining's subsidiary is recorded on the accompanying consolidated balance sheets as of June 27, 2008 related to this matter. The Company does not believe that the liability and receivable amounts are material to the Company's consolidated financial position, results of operations or cash flow.

***Indemnification Contingencies***

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 it 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 faces risk of exposure to warranty and product liability claims in the event that its products fail to perform as expected or such failure of its products results, or is alleged to result, in bodily injury or property damage (or both). In addition, if any of the Company's designed products are alleged to be defective, the Company may be required to participate in their recall. Depending on the significance of any particular customer and other relevant factors, the Company may agree to provide more favorable indemnity rights to such customers for valid warranty claims.

In connection with the acquisition of the LSI's Gresham, Oregon wafer fabrication facility, and ADI's PTC Business, we entered into various agreements with LSI and ADI, respectively. Pursuant to certain of these agreements, we agreed to indemnify LSI and ADI, respectively, for certain things limited in most instances by time and/or monetary amounts.

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 its 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.

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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 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 position, results of operations or cash flows.

**Legal Matters**

The Company currently 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 or referred to in the next paragraphs will have a material effect on the Company's financial condition, results of operations or cash flows. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, the Company's business, consolidated financial position, results of operations or cash flows could be materially and adversely affected.

**Securities Class Action Litigation**

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 the Company's former officers, current and former directors and the underwriters for the Company's 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 ("District Court"). 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 the Company's 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. The Company understands 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 have all been transferred, along with the case against the Company, to a single federal district court 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 for the Company.

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 the Company's individual former officers and current and former directors who were named as defendants in the Company's litigation, and they are no longer parties to the litigation. On February 19, 2003, the District Court issued its ruling on the

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motions to dismiss filed by the underwriter and issuer defendants. In that ruling the District 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 District 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 District 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 District 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 Company's Board of Directors, the Company elected to participate in a proposed settlement with the plaintiffs in this litigation. Had it been approved by the District Court, this proposed settlement would have resulted in the dismissal, with prejudice, of all claims in the litigation against the Company and against any of the other issuer defendants who elected to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. This proposed settlement was conditioned on, among other things, a ruling by the District Court that the claims against the Company and against the other issuers who had agreed to the settlement would be certified for class action treatment for purposes of the proposed settlement, such that all investors included in the proposed classes in these cases would be bound by the terms of the settlement unless an investor opted to be excluded from the settlement in a timely and appropriate fashion.

On December 5, 2006, the U.S. Court of Appeals for the Second Circuit ("Court of Appeals") issued a decision in *In re Initial Public Offering Securities Litigation* that six purported class action lawsuits containing allegations substantially similar to those asserted against the Company could not be certified as class actions due, in part, to the Court of Appeals' determination that individual issues of reliance and knowledge would predominate over issues common to the proposed classes. On January 8, 2007, the plaintiffs filed a petition seeking rehearing *en banc* of this ruling. On April 6, 2007, the Court of Appeals denied the plaintiffs' petition for rehearing of the Court of Appeals' December 5, 2006 ruling. The Court of Appeals, however, noted that the plaintiffs remained free to ask the District Court to certify classes different from the ones originally proposed which might meet the standards for class certification that the Court of Appeals articulated in its December 5, 2006 decision. The plaintiffs have since moved for certification of different classes in the District Court.

In light of the Court of Appeals' December 5, 2006 decision regarding certification of the plaintiffs' claims, the District Court entered an order on June 25, 2007 terminating the proposed settlement between the plaintiffs and the issuers, including the Company. Because any possible future settlement with the plaintiffs, if a settlement were ever to be negotiated and ultimately agreed to, would involve the certification of a class action for settlement purposes, the impact of the Court of Appeals' rulings on the possible future settlement of the claims against the Company cannot now be predicted.

On August 14, 2007, the plaintiffs filed amended complaints in the six focus cases. The issuer defendants and the underwriter defendants separately moved to dismiss the claims against them in the amended complaints in the six focus cases. On March 26, 2008, the District Court issued an order in which it denied in substantial part the motions to dismiss the amended complaints in the six focus cases. In addition, on October 1, 2007, the plaintiffs submitted their briefing in support of their motions to certify different classes in the six focus cases. The issuer defendants and the underwriter defendants filed separate oppositions to those motions on December 21, 2007. The motions to certify classes in the six focus cases are now fully briefed and pending.

The Company intends to continue to defend the litigation vigorously. While the Company can make no assurances or guarantees as to the outcome of these proceedings, the Company believes that the final result of

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this action will have no material effect on the Company's consolidated financial position, results of operations or cash flows.

**Intellectual Property Matters**

The Company faces risk to exposure from claims of infringement of the intellectual property rights of others. In the ordinary course of business, the Company receives letters asserting that the Company's products or components breach another party's rights. These threats may seek that the Company make royalty payments, that the Company stop use of such rights, or other remedies. The Company was in binding arbitration on one such claim under an existing license agreement. The arbitration hearing occurred late last year and the panel issued an Interim Reasoned Award on March 20, 2008, containing a final decision and ruling that none of the Company's accused products infringed the asserted patent. Per the terms of the license agreement, this decision is binding and non-appealable. However, on April 10, 2008, the other party filed a motion with the panel to reconsider its decision on the merits, which the Company has opposed as being impermissible and procedurally improper. On May 1, 2008, the panel issued its decision and order denying the other party's motion to reconsider the Interim Reasoned Award. On May 19, 2008, the Company filed a motion to recover its costs, arbitrators' fees, and attorneys' fees. On July 11, 2008, the panel issued a decision in favor of the Company and ordered the other party to pay substantially all of the Company's costs and fees. On June 20, 2008, the other party filed motions to vacate in part the panel's Interim Reasoned Award. One motion was filed in Arizona State Court and the other motion was filed in Arizona Federal District Court. The Company believes both motions are without merit and intends to challenge them vigorously. While the Company can make no assurances or guarantees as to the outcome of these proceedings, the Company believes that the final result of this action will have no material effect on its consolidated financial position, results of operations or cash flows.

On April 18, 2008, LSI Logic Corporation ("LSI") and Agere Systems Inc. ("Agere") (which was acquired by LSI in 2007) filed a new patent infringement action with the U.S. International Trade Commission naming 18 semiconductor companies including the Company. LSI and Agere also filed a parallel patent infringement lawsuit against the same companies in the Federal District Court in the Eastern District of Texas. LSI and Agere are seeking an injunction and damages in an unspecified amount relating to such alleged infringement. The patent relates to semiconductor wafer processing. The Company believes that it is already licensed to the asserted patent through pre-existing patent license agreements with LSI and Agere, and that these licenses cover all of the Company's relevant wafer operations. The Company is attempting to resolve the matter informally with LSI and Agere, but if that is not successful, the Company intends to defend the litigation vigorously. While the Company can make no assurances or guarantees as to the outcome of these proceedings, the Company believes that the final result of this action will have no material effect on the Company's consolidated financial position, results of operations or cash flows.

Prior to the acquisition of AMIS by the Company on March 17, 2008, on July 19, 2007, AMIS was served with an amended complaint filed against its operating company, AMI Semiconductor, Inc., and its Belgian subsidiary, AMI Semiconductor Belgium B.V.B.A., by PowerDsine, Inc., and PowerDsine, Ltd., subsidiaries of MicroSemi Corporation, in the United States District Court for the Southern District of New York related to AMIS's recently announced power-over-Ethernet ("PoE") products. The complaint alleges that AMIS breached the terms of a nondisclosure agreement between PowerDsine and AMIS Belgian subsidiary by using PowerDsine's confidential information to develop AMIS's PoE products and that AMIS interfered with an employment contract they had with a former employee who left PowerDsine and came to work for AMIS. This second claim was later dismissed by PowerDsine on August 10, 2007. In the complaint, PowerDsine seeks injunctive relief and damages in excess of \$150.0 million. AMIS has denied PowerDsine's claims and has filed counterclaims against PowerDsine and Microsemi. Discovery in the case is proceeding with completion of

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discovery expected by the end of August 2008, and an initial pre-trial conference scheduled for September 16, 2008. The Company believes that PowerDsine's asserted claims are without merit and that resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Prior to the acquisition of AMIS by the Company on March 17, 2008, in January 2003, Ricoh Company, Ltd. ("Ricoh") filed in the U.S. District Court for the District of Delaware a complaint against AMIS and other parties alleging infringement of a patent owned by Ricoh. The case has been transferred to the U.S. District Court for the Northern District of California. Ricoh is seeking an injunction and damages in an unspecified amount relating to such alleged infringement. The patents relate to certain methodologies for the automated design of custom semiconductors. This case had been scheduled to go to trial in March 2007. However, in December 2006, the court issued an order staying the case pending a re-examination proceeding filed by Synopsys, Inc. ("Synopsys") before the U.S. Patent & Trademark Office ("PTO") challenging the validity of the patent claims at issue in this case. In December 2007, the PTO issued a final rejection of all claims over prior art. Ricoh filed a response to the final rejection in January 2008, which is currently under review by the PTO. On March 28, 2008, an additional re-examination petition was filed by Synopsys with the PTO challenging the validity of the claims at issue on new grounds. On April 17, 2008 the stay order was lifted despite the ongoing reexamination proceedings by the PTO and the court scheduled a hearing for September 26, 2008. On June 17, 2008, the PTO granted Synopsys's March 28, 2008 petition for re-examination stating that a substantial new question of patentability affecting certain claims has been raised. The Company believes that the asserted claims are without merit, and even if meritorious, that the Company will be indemnified against damages by Synopsys, and that resolution of this matter will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**Note 10: Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree, as well as the goodwill acquired. Significant changes from current practice resulting from SFAS 141(R) include the expansion of the definitions of a "business" and a "business combination." For all business combinations (whether partial, full or step acquisitions), the acquirer will record 100% of all assets and liabilities of the acquired business, including goodwill, generally at their fair values; contingent consideration will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settlement; and acquisition-related transaction and restructuring costs will be expensed rather than treated as part of the cost of the acquisition. SFAS 141(R) also establishes disclosure requirements to enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is not permitted. The Company is currently evaluating the potential impact the adoption of SFAS 141(R) will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement.

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SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact the adoption of SFAS 160 will have on its consolidated financial statements

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of SFAS 161 are effective for any quarter ending after February 28, 2009. The Company is currently evaluating the impact of the provisions of SFAS 161.

In May 2008, the FASB issued SFAS No. 162 "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. The provisions of SFAS 162 are effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company is currently evaluating the impact of this statement SFAS 162, and does not expect that this statement will result in a change in current practice.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1 ("FSP"). The FSP specifies that issuers of convertible debt instruments that permit or require the issuer to pay cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company will need to apply the guidance retrospectively to all past periods presented, even to instruments that have matured, converted, or otherwise been extinguished as of the effective date. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company has determined the impact of the adoption of APB 14-1 will have a material impact on the results of operations due to higher non-cash interest expense and initially improve the Company's perceived financial position as equity will increase and debt will decrease.

In May 2008, the FASB issued SFAS No. 163, "*Accounting for Financial Guarantee Insurance Contracts—An interpretation of FASB Statement No. 60*" ("SFAS 163"). SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise's risk-management activities. SFAS 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. The Company is currently evaluating the impact of SFAS No. 163 to its financial position and results of operations.



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In June 2008, the Emerging Issues Task Force (“EITF”) issued Issue No. 07-05, “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock” (“Issue 07-05”). Issue No. 07-05 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity’s own stock, if an instrument (or an embedded feature) that has the characteristics of a derivative instrument is indexed to an entity’s own stock, it is still necessary to evaluate whether it is classified in stockholders’ equity (or would be classified in stockholders’ equity if it were a freestanding instrument). In addition, for some instruments that are potentially subject to the guidance in EITF Issue No. 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” but do not have all the characteristics of a derivative instrument under paragraphs 6 through 9, it is still necessary to evaluate whether it is classified in stockholders’ equity. It is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact that Issue 07-05 will have on its consolidated financial statements.

**Note 11: Subsequent Events**

On July 16, 2008, the Company and Catalyst Semiconductor, Inc., (“Catalyst”), a Delaware corporation entered into a merger agreement, under which Catalyst will become a wholly-owned subsidiary of the Company. The merger agreement has been approved by the Boards of Directors of both companies, but is contingent upon the approval of Catalyst’s stockholders. At the effective time of the merger, each issued and outstanding share of common stock of Catalyst will be converted into the right to receive 0.706 shares of the Company’s common stock, which had an estimated value of \$96.1 million when the merger was announced on July 17, 2008. Consummation of the merger is subject to several closing conditions, including the adoption of the merger agreement by a majority of the outstanding shares of Catalyst’s common stock, the expiration of applicable waiting periods in certain jurisdictions, the absence of certain governmental restraints and the effectiveness of a Form S-4 registration statement filed by the Company.

The merger agreement contains certain termination rights for both the Company and Catalyst and provides that a specified fee must be paid by one party to the other in connection with certain termination events. In certain specified circumstances, Catalyst must pay the Company a termination fee of approximately \$3.3 million (generally in the event the Board of Directors of Catalyst changes its recommendation that its stockholders adopt the merger agreement, or elects to pursue an alternative acquisition proposal from a third party).

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**Note 12: Segment Information**

The Company is organized into five operating segments, which also represent five reporting segments: automotive and power regulation, computing, digital and consumer, standard products (which includes products that are sold in many different end-markets) and custom and foundry product group. Each of the Company's major product lines has been examined and each product line has been assigned to a segment, as illustrated in the table below, based on the Company's operating strategy. Because many products are sold into different end markets, the total revenue reported for a segment is not indicative of actual sales in the end market associated with that segment, but rather is the sum of the revenue from the product lines assigned to that segment. The Company's manufacturing services and custom products segment includes parts manufactured for other semiconductor companies, principally in the Gresham, Oregon facility as well as custom products from our acquisition of AMIS. These segments represent the Company's view of the business and as such are used to evaluate progress of major initiatives.

<u>Automotive &amp; Power Regulation</u>	<u>Computing Products</u>	<u>Digital &amp; Consumer Products</u>	<u>Standard Products</u>	<u>Custom and Foundry Product Group</u>
AC-DC Conversion	Low & Medium MOSFET	Analog Switches	Bipolar Power	Manufacturing Services
Analog Automotive	Power Switching	Low Voltage	Thyristor	Custom Products
DC-DC Conversion	Signal & Interface	App. Specific Int. Products	Small Signal	
Rectifier			Zener	
Auto Power			Protection	
LDO & Vregs			High Frequency	
			Standard Logic	

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company does not specifically identify and allocate any assets by operating segment. The Company evaluates performance based on gross profit as well as income or loss from operations before interest, nonrecurring gains and losses, foreign exchange gains and losses, income taxes and certain other unallocated expenses.

The Company's wafer manufacturing facilities fabricate integrated circuits for all business units as necessary and their operating costs are reflected in the segments' cost of revenues on the basis of product costs. Because operating segments are generally defined by the products they design and sell, they do not make sales to each other. The Company does not discretely allocate assets to its operating segments, nor does management evaluate operating segments using discrete asset information. From time to time the Company reassesses the alignment of its product families and devices to its operating segments and may move product families or individual devices from one operating segment to another.

In addition to the operating segments mentioned above, the Company also operates global operations, sales and marketing, information systems, finance and administration groups that are led by executive or senior vice presidents who report to the Chief Executive Officer. The expenses of these groups are allocated to the operating segments based on specific and general criteria and are included in the operating results reported below. The Company does not allocate income taxes or interest expense to its operating segments as the operating segments

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are principally evaluated on operating profit before interest and taxes. Additionally, restructuring, asset impairments and other, net and certain other manufacturing and operating expenses, are not allocated to any operating segment.

Information about segments for the quarter and six months ended June 27, 2008 and for the quarter and six months ended June 29, 2007 is as follows (in millions):

	<u>Automotive &amp; Power Regulation</u>	<u>Computing Products</u>	<u>Digital &amp; Consumer Products</u>	<u>Standard Products</u>	<u>Custom and Foundry Product Group</u>	<u>Total</u>
<b>Quarter ended June 27, 2008:</b>						
Revenues from external customers	\$ 114.0	\$ 107.4	\$ 43.7	\$ 128.6	\$ 169.0	\$562.7
Segment gross profit	\$ 44.5	\$ 43.4	\$ 24.4	\$ 52.2	\$ 41.0	\$205.5
Segment operating income (loss)	\$ 21.2	\$ 18.3	\$ 12.0	\$ 33.3	\$ (17.0)	\$ 67.8
<b>Quarter ended June 29, 2007:</b>						
Revenues from external customers	\$ 103.9	\$ 81.3	\$ 42.9	\$ 127.7	\$ 25.4	\$381.2
Segment gross profit	\$ 39.8	\$ 30.9	\$ 23.2	\$ 58.1	\$ (1.7)	\$150.3
Segment operating income (loss)	\$ 17.5	\$ 14.1	\$ 12.0	\$ 40.4	\$ (2.6)	\$ 81.4
<b>Six Months ended June 27, 2008:</b>						
Revenues from external customers	\$ 220.1	\$ 215.4	\$ 85.7	\$ 247.1	\$ 216.3	\$984.6
Segment gross profit	\$ 86.1	\$ 82.8	\$ 47.5	\$ 103.1	\$ 42.9	\$362.4
Segment operating income (loss)	\$ 40.8	\$ 36.3	\$ 23.7	\$ 66.3	\$ (21.6)	\$145.5
<b>Six months ended June 29, 2007:</b>						
Revenues from external customers	\$ 209.9	\$ 161.5	\$ 85.1	\$ 247.1	\$ 51.8	\$755.4
Segment gross profit	\$ 81.8	\$ 60.8	\$ 44.6	\$ 107.8	\$ (3.9)	\$291.1
Segment operating income (loss)	\$ 36.9	\$ 27.0	\$ 22.4	\$ 72.2	\$ (5.7)	\$152.8

Depreciation and amortization expense is included in segment operating income. Reconciliations of segment gross profit and segment operating income to the financial statements are as follows (in millions):

	<u>Quarter Ended</u>		<u>Six Months Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Gross profit for reportable segments	\$205.5	\$150.3	\$362.4	\$291.1
Unallocated amounts:				
Other unallocated manufacturing costs	(13.9)	(4.3)	(24.2)	(8.5)
Gross profit	<u>\$191.6</u>	<u>\$146.0</u>	<u>\$338.2</u>	<u>\$282.6</u>
Operating income for reportable segments	\$ 67.8	\$ 81.4	\$145.5	\$152.8
Unallocated amounts:				
Restructuring, asset impairments and other, net	(14.2)	—	(20.0)	—
Other unallocated manufacturing costs	(13.9)	(4.3)	(24.2)	(8.5)
Other unallocated operating expenses	(6.3)	(5.6)	(37.1)	(10.1)
Operating income	<u>\$ 33.4</u>	<u>\$ 71.5</u>	<u>\$ 64.2</u>	<u>\$134.2</u>

The Company operates in various geographic locations. Sales to unaffiliated customers have little correlation with the location of manufacturers. The Company conducts a substantial portion of its operations

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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.

Revenues by geographic location and product line, including local sales and exports made by operations within each area, based on shipments from the respective country are summarized as follows (in millions):

	<b>Quarter Ended</b>	
	<b>June 27, 2008</b>	<b>June 29, 2007</b>
United States	\$ 137.3	\$ 94.0
The Other Americas	0.7	0.7
United Kingdom	56.0	56.4
Belgium	57.5	—
China	199.0	154.5
Singapore	40.4	35.4
The Other Asia/Pacific	71.8	40.2
	<u>\$ 562.7</u>	<u>\$ 381.2</u>

  

	<b>Six Months Ended</b>	
	<b>June 27, 2008</b>	<b>June 29, 2007</b>
United States	\$ 237.7	\$ 194.0
The Other Americas	1.2	1.3
United Kingdom	113.9	114.7
Belgium	68.0	—
China	369.6	294.9
Singapore	77.1	72.9
The Other Asia/Pacific	117.1	77.6
	<u>\$ 984.6</u>	<u>\$ 755.4</u>

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

	<b>June 27, 2008</b>	<b>December 31, 2007</b>
China	\$ 119.3	\$ 118.1
United States	197.7	161.0
Belgium	53.7	—
Europe	111.2	117.6
Malaysia	104.4	97.5
Japan	66.6	66.4
The Other Asia/Pacific	89.3	52.2
The Other Americas	2.2	2.1
	<u>\$ 744.4</u>	<u>\$ 614.9</u>

For the quarter ended June 27, 2008, none of the Company's customers accounted for 10% or more of the Company's total revenues. For the six months ended June 27, 2008, one of the Company's customers accounted for 10% of the Company's total revenues. For the quarter and six months ended June 29, 2007, one of the Company's customers accounted for 12% of the Company's total revenues.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion in conjunction with our audited historical consolidated financial statements, which are included in our Form 10-K, filed with the SEC on February 12, 2008 and our unaudited consolidated financial statements for the fiscal quarter and six months ended June 27, 2008 included elsewhere in this Form 10-Q. Management's Discussion and Analysis of Financial Condition and Results of Operations contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks, uncertainties and other factors. Actual results could differ materially because of certain factors discussed below or elsewhere in this Form 10-Q. See section entitled "1A Risk Factors."*

**Executive Overview**

This Executive Overview presents summary information regarding our industry, markets and operating trends only. 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.

*Industry Overview*

We participate in unit and revenue surveys and use data summarized by the World Semiconductor Trade Statistics ("WSTS") group to evaluate overall semiconductor market trends and also to track our progress against the total market in the areas we provide semiconductor components. The most recently published estimates of WSTS project a compound annual growth rate in our total addressable market of approximately 5.4% during 2008 through 2011. These are not our projections and may not be indicative of actual results.

*Business and Company Overview*

We classify our products broadly as power, analog, digital signal processing, mixed-signal, advanced logic, data management semiconductors and standard component devices. 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 control, convert, protect and monitor the supply of power to the different elements within a wide variety of electronic devices. Our custom application specific integrated circuits use analog, digital signal processing, mixed-signal and advanced logic capabilities to act as the brain behind many of our automotive, medical, military, aerospace, consumer and industrial customers' unique products. 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. These various products fall into the logic, analog and discrete categories used by WSTS.

We serve a broad base of end-user markets, including power supply, automotive, communications, computer, consumer, medical, industrial, mobile phone and military/aerospace. Applications for our products in these markets include portable electronics, computers, game stations, servers, automotive and industrial automation control systems, routers, switches, storage-area networks and automated test equipment.

Our extensive portfolio of devices enables us to offer advanced integrated circuits and the "building block" components that deliver system level functionality and design solutions. Our product portfolio currently comprises approximately 37,400 products and we shipped approximately 16.9 billion units in the first six months of 2008 as compared to approximately 15.3 billion units in the first six months of 2007. We specialize in micro packages, which offer increased performance characteristics while reducing the critical board space inside today's ever shrinking electronic devices. We believe that our ability to offer a broad range of products provides our customers with single source purchasing on a cost-effective and timely basis.

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On March 17, 2008, we completed the purchase of AMIS Holdings, Inc., a Delaware corporation (“AMIS”), whereby AMIS became our wholly-owned subsidiary. At the effective time of the merger, each issued and outstanding share of common stock of AMIS was converted into 1.15 shares of our common stock. The aggregate purchase price was approximately \$939.7 million, which includes common stock, RSUs, options and warrants issued and estimated direct transaction costs. We believe the combination will enhance shareholder value by (1) accelerating our transformation from a discrete supplier to a key supplier with scale, (2) strengthening our end-market presence, facilitating our entry into new markets and deepening customer relationships, (3) obtaining significant scale and cash flow generation, and (4) achieving cost savings by leveraging our operational excellence and accelerating the ramp of activity in our Gresham, Oregon wafer fabrication facility.

We are organized into five operating segments, which also represent five reporting segments: automotive and power regulation, computing products, digital and consumer products, standard products (which include products that are sold in many different end-markets) and custom and foundry product group. Each of our major product lines has been assigned to a segment, as illustrated in the table below, based on our operating strategy. Because many products are sold into different end markets, the total revenue reported for a segment is not indicative of actual sales in the end market associated with that segment, but rather is the sum of the revenues from the product lines assigned to that segment. Our manufacturing services and custom products segment includes parts manufactured for other semiconductor companies, principally in the Gresham, Oregon facility as well as custom products from our acquisition of AMIS. From time to time we reassess the alignment of our product families and devices to our operating segments and may move product families or individual devices from one operating segment to another.

<u>Automotive &amp; Power Regulation</u>	<u>Computing Products</u>	<u>Digital &amp; Consumer Products</u>	<u>Standard Products</u>	<u>Custom and Foundry Product Group</u>
AC-DC Conversion	Low & Medium MOSFET	Analog Switches	Bipolar Power	Manufacturing Services
Analog Automotive	Power Switching	Filters	Thyristor	Custom Products
DC-DC Conversion	Signal & Interface	Low Voltage	Small Signal	
Rectifier			Zener	
Auto Power			Protection	
LDO & Vregs			High Frequency	
			Standard Logic	

We have over 580 direct customers worldwide, and we also service approximately 230 significant original equipment manufacturers indirectly through our distributor and electronic manufacturing service provider customers. Our direct and indirect customers include: (1) leading original equipment manufacturers in a broad variety of industries, such as Motorola, Delta, Hewlett-Packard, Hella, Schneider, GE, Samsung, Continental Automotive Systems, Siemens, Honeywell, Apple, Dell, Nokia, Intel, and Sony; (2) electronic manufacturing service providers, such as Flextronics and Jabil; and (3) global distributors, such as Arrow, Avnet, EBV Elektronik, Future, Solomon Enterprise and World Peace.

We currently have major design operations in Arizona, Rhode Island, Idaho, California, Texas, Oregon, China, Slovakia, the Czech Republic, Korea, Belgium, Canada, Germany, Bulgaria, Ireland and France, and we currently operate manufacturing facilities in Arizona, Oregon, Idaho, Belgium, China, the Czech Republic, Japan, Malaysia, the Philippines, and Slovakia. In the first quarter of 2007, we announced the planned closing of one of our Arizona manufacturing facilities for cost savings purposes. The wafer manufacturing that takes place at this facility will be transferred to our off-shore, low-cost manufacturing facilities. During the fourth quarter of

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2007, we entered into an agreement to sell the wafer fabrication facility and associated land for approximately \$16 million, subject to various conditions and certain adjustments. If the sale is completed at the originally contracted price, we expect to record gains totaling approximately \$9.0 million. The sale is scheduled to be completed the third quarter of 2008. We also continue to market additional unused portions of our property at our corporate headquarters in Arizona and plan to use some of the proceeds for the sale to upgrade portions of our corporate headquarters. During the second quarter of 2007 we entered into an agreement to sell three parcels of land totaling approximately 22 acres for approximately \$9.5 million subject to various conditions and certain adjustments. If the sale is completed, at the originally contracted price, we expect to record gains totaling approximately \$8.2 million over the next three to four quarters. The remaining unused building is currently being marketed for sale. We will maintain our headquarters offices and remaining manufacturing facilities on the portions of the property that are not for sale.

We used cash on hand to repurchase 5,000,000 shares of our common stock during the second quarter of 2007, at a price of \$11.05 per share. These shares were acquired for general corporate purposes. None of the shares previously repurchased by us, were reissued or retired as of June 27, 2008.

Historically, the semiconductor industry has been highly cyclical. During a down cycle, unit demand and pricing have tended to fall in tandem, resulting in revenue declines. In response to such declines, manufacturers have shut down production capacity. When new applications or other factors have eventually caused demand to strengthen, production volumes have eventually stabilized and then grown again. As market unit demand has reached levels above capacity production capabilities, shortages have begun to occur, which typically has caused pricing power to swing back from customers to manufacturers, thus prompting further capacity expansion. Such expansion has typically resulted in overcapacity following a decrease in demand, which has triggered another similar cycle.

### *New Product Innovation*

As a result of the success of our research and development initiatives, excluding the introduction of lead-free products, we introduced 171 new product families in 2007 and an additional 107 new product families for the six months ended June 27, 2008. Our new product development efforts continue to be focused on building solutions in power management and customer specific applications that appeal to leading customers in focused market segments and across multiple high growth applications. In light of the acquisition of the Gresham, Oregon wafer fabrication facility, we are increasing our research and development in deep sub micron power management solutions to further differentiate us from our competition. As always, it is our practice to regularly re-evaluate our research and development spending, to assess the deployment of resources and to review the funding of high growth technologies regularly. We deploy people and capital with the goal of maximizing our investment in research and development in order to position us for continued growth. As a result, we often invest opportunistically to refresh existing products in our commodity logic, analog, and discrete products. We invest in these initiatives when we believe there is a strong customer demand or opportunities to innovate our current portfolio in high growth markets and applications.

### *Cost Savings and Restructuring Activities*

We continue to implement profitability enhancement programs to improve our cost structure and, as a result, we expect to rank, as compared to our primary competitors, among the lowest in terms of cost structure. During the first quarter of 2007, we announced plans to consolidate manufacturing efforts with the closing of one of our manufacturing facilities at our Phoenix, Arizona location. The wafer manufacturing that takes place at this facility will be transferred to our off-shore low cost manufacturing facilities, and we expect this transfer to be completed during the last two fiscal quarters of 2008. After we have completed the transfer to other facilities, we plan to exit the wafer fabrication facility at our Phoenix, Arizona location, which is currently under agreement to be sold. It is anticipated that approximately 85 employees will be terminated as a result of this consolidation effort, in addition to approximately 30 positions that will be eliminated through normal attrition. We expect the

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full annual cost savings from this consolidation to be at least \$7.0 million to \$9.0 million beginning in the fourth quarter of 2008.

Also in connection with this activity, during the third quarter of 2007, we announced reductions in factory support functions at our Phoenix, Arizona and Gresham, Oregon locations which resulted in the elimination or transfer of 62 positions. We expect the full annual cost savings from this announcement to be approximately \$5.9 million beginning in the fourth quarter of 2008.

Also in connection with this activity, during the second quarter of 2008, we began the process of closing our wafer fabrication facility in Piestany, Slovakia which resulted in the elimination of 398 positions. We expect full annual savings from this announcement to be approximately \$12.0 million to \$16.0 million annually beginning in the fourth quarter of 2009.

Although we have production at several locations, we have initiated process improvements and selective capital acquisitions that we expect will increase our overall capacity. Our profitability enhancement programs will continue to focus on:

- consolidating manufacturing sites to improve economies of scale;
- transferring production to lower cost regions;
- increasing die manufacturing capacity in a cost-effective manner by moving production from 4" to 6" and 8" wafers resulting in an increase to the number of die per square inch;
- reducing the number of product platforms and process flows; and
- focusing production on profitable product families.

## **Outlook**

Based upon product booking trends, backlog levels, anticipated manufacturing services revenue and estimated turns levels, we anticipate that total revenues will be approximately \$570 million to \$585 million in the third quarter of 2008. Backlog levels at the beginning of the third quarter of 2008 were up from backlog levels at the beginning of the second quarter of 2008 and represent over 90% percent of our anticipated third quarter revenues. We expect that average selling prices for the third quarter of 2008 will be down approximately two percent as compared to the second quarter of 2008. We anticipate cash capital expenditures to be approximately \$40 million during the third quarter of 2008 and total cash capital expenditures for 2008 to be approximately \$120 million to \$130 million. For the third quarter of 2008, we expect gross margin of approximately 37.5 percent to 38.5 percent. For the third quarter we also expect total operating expenses of approximately \$150 million to \$156 million, with selling and marketing and general and administrative expenses at approximately 12 to 13 percent of sales and Research and Development expenses at approximately 12 percent of sales. We anticipate that net interest expense and other expenses will be approximately \$10 million for the third quarter of 2008. Our current fully diluted share count is approximately 410 million shares based on recent share prices.



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**Results of Operations**

**Quarter Ended June 27, 2008 Compared to Quarter Ended June 29, 2007**

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements for the quarters ended June 27, 2008 and June 29, 2007. The amounts in the following table are in millions:

	Quarter Ended		Dollar Change
	June 27, 2008	June 29, 2007	
Revenues	\$562.7	\$381.2	\$ 181.5
Cost of revenues	371.1	235.2	135.9
Gross profit	191.6	146.0	45.6
Operating expenses:			
Research and development	67.5	32.4	35.1
Selling and marketing	37.9	23.3	14.6
General and administrative	31.9	18.8	13.1
Amortization of acquisition-related intangible assets	6.7	—	6.7
Restructuring, asset impairments and other net	14.2	—	14.2
Total operating expenses	158.2	74.5	83.7
Operating income	33.4	71.5	(38.1)
Other income (expenses):			
Interest expense	(9.6)	(9.4)	(0.2)
Interest income	1.8	2.9	(1.1)
Other	1.2	—	1.2
Other income (expenses), net	(6.6)	(6.5)	(0.1)
Income before income taxes and minority interests	26.8	65.0	(38.2)
Income tax provision (benefit)	17.1	(1.4)	18.5
Minority interests	0.7	(0.3)	1.0
Net income	\$ 44.6	\$ 63.3	\$ (18.7)

**Revenues**

Revenues were \$562.7 million and \$381.2 million during the quarters ended June 27, 2008 and June 29, 2007, respectively. The increase from second quarter of 2007 to the second quarter of 2008 was primarily due to revenues from our December 2007 acquisition of the voltage regulation and thermal monitoring products for our computing application business (“PTC Business”) from Analog Devices, Inc. and its subsidiaries (“ADP”), and our acquisition of AMIS Holdings, Inc., a Delaware corporation (“AMIS”), partially offset by a reduction in average selling prices of approximately 7.7%. The revenues by reportable segment were as follows (dollars in millions):

	Quarter Ended June 27, 2008	As a % Revenue	Quarter Ended June 29, 2007	As a % Revenue	Dollar Change	% Change
Automotive and Power Regulation	\$ 114.0	20%	\$ 103.9	27%	\$ 10.1	10%
Computing Products	107.4	19%	81.3	21%	26.1	32%
Digital and Consumer Products	43.7	8%	42.9	11%	0.8	2%
Standard Products	128.6	23%	127.7	34%	0.9	1%
Custom and Foundry Product Group	169.0	30%	25.4	7%	143.6	565%
Total revenues	\$ 562.7		\$ 381.2		\$ 181.5	

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Revenues from automotive and power regulation increased \$10.1 million, or 10%, in the second quarter of 2008 as compared to the second quarter of 2007. The increase is attributed to an increase in revenues from AC to DC conversion, rectifier and auto power products, partially offset by decreases in revenues from voltage regulator, analog automotive products and DC to DC conversion products.

Revenues from computing products increased \$26.1 million, or 32%, in the second quarter of 2008 as compared to the second quarter of 2007. The increase is attributed to an increase in revenues from power switching and signal and interface products, which were slightly offset by decreases in revenues from low and medium voltage MOSFET.

Revenues from digital and consumer products increased \$0.8 million, or 2%, in the second quarter of 2008 as compared to the second quarter of 2007. The increase is attributed to an increase in revenues from low voltage products, partially offset by decreases in revenues from filters and analog switch products.

Revenues from standard products increased \$0.9 million, or 1%, in the second quarter of 2008 as compared to the second quarter of 2007. The increase is attributed to increased revenues in small signal, protection, standard logic, zener, bipolar power, thyristor products, partially offset by decreases in revenues from high frequency products.

Revenues from custom and foundry product group increased by \$143.6 million in the second quarter of 2008 as compared to the second quarter of 2007. The increase is attributable to revenues from the AMIS business, partially offset by a decline in activity pursuant to the LSI wafer supply agreement.

Revenues by geographic area as a percentage of revenues were as follows (dollars in millions):

	<u>Quarter Ended</u> <u>June 27, 2008</u>	<u>As a %</u> <u>Revenue</u>	<u>Quarter Ended</u> <u>June 29, 2007</u>	<u>As a %</u> <u>Revenue</u>
Americas	\$ 138.0	25%	\$ 94.7	25%
Asia/Pacific	311.2	55%	230.1	60%
Europe	113.5	20%	56.4	15%
Total	<u>\$ 562.7</u>	<u>100%</u>	<u>\$ 381.2</u>	<u>100%</u>

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices. For the quarter ended June 27, 2008, none of our customers accounted for 10% or more of our total revenues. For the quarter ended June 29, 2007, one of our customers accounted for 12% of our total revenues.

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### Gross Profit

Our gross profit was \$191.6 million in the second quarter of 2008 compared to \$146.0 million in the second quarter of 2007. As a percentage of revenues, our gross profit was 34.1% in the second quarter of 2008 as compared to 38.3% in the second quarter of 2007. Gross profit as a percentage of revenue decreased during the second quarter of 2008 as compared to the second quarter of 2007 primarily due to the sale of inventory that was written up to fair value in connection with the acquisitions of AMIS and the PTC Business from ADI which has a \$38.2 million impact with the decrease in average selling prices mostly offset by cost reduction activities. The gross profit by reportable segment in each of these quarters were as follows (dollars in millions):

	<u>Quarter Ended June 27, 2008</u>	<u>As a % Net Revenue</u>	<u>Quarter Ended June 29, 2007</u>	<u>As a % Net Revenue</u>	<u>Dollar Change</u>	<u>% Change</u>
Automotive & Power Regulation	\$ 44.5	7.9%	\$ 39.8	10.4%	\$ 4.7	11.8%
Computing Products	43.4	7.7%	30.9	8.1%	12.5	40.5%
Digital & Consumer Products	24.4	4.3%	23.2	6.1%	1.2	5.2%
Standard Products	52.2	9.3%	58.1	15.2%	(5.9)	-10.2%
Custom and Foundry Product Group	41.0	7.3%	(1.7)	-0.4%	42.7	2511.8%
Gross profit by segment	205.5		150.3		\$ 55.2	
Unallocated Manufacturing	(13.9)	-2.5%	(4.3)	-1.1%		
Total gross profit	<u>\$ 191.6</u>	34.1%	<u>\$ 146.0</u>	38.3%		

Gross profit from automotive and power regulation increased \$4.7 million, or 11.8%, in the second quarter of 2008 as compared to the second quarter of 2007. The increase is attributed to increases in gross profit from AC to DC conversion, rectifier and auto power products, partially offset by decreases in gross profit from analog automotive products voltage regulator and DC to DC conversion products.

Gross profit from computing products increased \$12.5 million, or 40.5%, in the second quarter of 2008 as compared to the second quarter of 2007. The increase is attributed to increases in gross profit from power switching, low and medium voltage MOSFET and signal and interface products.

Gross profit from digital and consumer products increased \$1.2 million, or 5.2%, in the second quarter of 2008 as compared to the second quarter of 2007. The increase is attributed to increases in gross profit from filters and low voltage products, partially offset by decreases in gross profit from analog switch products.

Gross profit from standard products decreased \$5.9 million, or 10.2%, in the second quarter of 2008 as compared to the second quarter of 2007. The decrease is attributed to decreases in gross profit from high frequency products, partially offset by increases in gross profit from protection, standard logic, bipolar power, zener, thyristor, and small signal products.

Gross profit from custom and foundry product group increased \$42.7 million, in the second quarter of 2008 as compared to the second quarter of 2007. The increase is attributed to gross profit from the 2008 AMIS, partially offset by \$38.2 million expense related to a step up in the inventory valuation as of the acquisition date and decreases in gross profit pursuant to the LSI wafer supply agreement.

### Operating Expenses

Research and development expenses were \$67.5 million in the second quarter of 2008 compared to \$32.4 million in the second quarter of 2007, representing an increase of \$35.1 million, or 108.3%. Research and development expenses represented 12.0% and 8.5% of revenues in the second quarter of 2008 and the second quarter of 2007, respectively. The increase in research and development expenses was attributable to increased

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expense associated with acquisition of AMIS and the PTC Business from ADI combined with the development of new products in our Gresham fabrication facility, the expansion of our digital production capacities in our Gresham fabrication facility and currency impacts on labor costs, partially offset by decreased employee performance bonuses.

Selling and marketing expenses were \$37.9 million in the second quarter of 2008 compared to \$23.3 million in the second quarter of 2007, representing an increase of \$14.6 million, or 62.7%. Selling and marketing expenses represented 6.7% and 6.1% of revenues in the second quarter of 2008 and the second quarter of 2007, respectively. The increase in selling and marketing expense is primarily attributed to selling and marketing activities at AMIS combined with increases in employee salaries and wages from increased currency impacts and increased incentive compensation.

General and administrative expenses were \$31.9 million in the first quarter of 2008 compared to \$18.8 million in the second quarter of 2007, representing an increase of \$13.1 million, or 69.7%. General and administrative expenses represented 5.7% and 4.9% of revenues in the second quarter of 2008 and the second quarter of 2007, respectively. The increase in general and administrative expense is primarily attributed to increased stock compensation expense and general and administrative expense associated with the AMIS integration costs, combined with higher wages from increased foreign currency translation.

### *Other Operating Expenses—Restructuring, Asset Impairments and Other, Net*

Restructuring, asset impairment and other, net were \$14.2 million in the second quarter of 2008 compared to zero in the second quarter of 2007.

In March 2008, we acquired AMIS and announced plans to integrate the operations of the two companies for cost savings purposes. As part of these plans, certain duplicative positions were eliminated and certain overlapping or duplicative contracts with external suppliers were renegotiated with terms applicable to the combined company. During June 2008, we recorded employee separation charges of \$3.6 million and exit costs of \$0.3 million related to the 2008 acquisition of AMIS. The employee separation charges of \$3.6 million include \$2.7 million for severance benefits of 77 individuals, 19 of who were employees of AMIS prior to the acquisition but were required to render services until their termination date to receive severance benefits. The termination benefits for the 16 AMIS employees are being recognized ratably from the acquisition date to their termination date. We expect to record an additional \$1.1 million through the end of the fourth quarter of 2008. Additionally, we recorded \$0.9 million for severance benefits for 58 employees who were our employees prior to acquisition. The exit costs of \$0.3 million were for charges incurred to terminate contracts under agreement with certain external suppliers found to be duplicative between us and AMIS.

In March 2007, we announced plans to consolidate manufacturing efforts with the closing of one of our manufacturing facilities at our Phoenix, Arizona location. The wafer manufacturing that takes place at this facility will be transferred to our offshore lower-cost manufacturing facilities. During the quarter ended June 27, 2008, we recorded \$0.2 million of restructuring charges related to this plan for employee separation costs.

In June 2008, we announced plans to consolidate a portion of operations in our Hong Kong design center. During the quarter ended June 27, 2008, we recorded \$0.3 million of restructuring charges for 6 employees that were terminated as a result of this consolidation effort.

In June 2008, we recorded \$9.8 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. The \$9.8 million of asset impairments include \$7.9 million associated with the May 2008 planned shutdown of manufacturing facilities in Piestany, Slovakia. This announcement triggered an impairment analysis of the carrying value of the related asset group. We measured the amount of this asset impairment by comparing the carrying value of the respective assets to their related estimated fair values. We estimated future net cash flows for the period of continuing manufacturing activities

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and eventual disposition of the assets using price, volume, cost and salvage value assumptions that management considered reasonable in the circumstances. The impairment charge was recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value. The remaining \$1.9 million of asset impairments was for excess machinery and equipment abandoned by the Company as a result of the acquisition of AMIS.

### *Operating Income*

Information about operating income from our reportable segments for the quarters ended June 27, 2008 and June 29, 2007 are as follows, in millions:

	<u>Automotive &amp; Power Regulation</u>	<u>Computing Products</u>	<u>Digital &amp; Consumer Products</u>	<u>Standard Products</u>	<u>Custom and Foundry Product Group</u>	<u>Total</u>
Quarter ended June 27, 2008:						
Segment operating income (loss)	\$ 21.2	\$ 18.3	\$ 12.0	\$ 33.3	\$ (17.0)	\$67.8
Quarter ended June 29, 2007:						
Segment operating income (loss)	\$ 17.5	\$ 14.1	\$ 12.0	\$ 40.4	\$ (2.6)	\$81.4

Depreciation and amortization expense is included in segment operating income. Reconciliations of segment information to financial statements follow, in millions:

	<u>Quarter Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Operating income for reportable segments	\$ 67.8	\$ 81.4
Unallocated amounts:		
Restructuring, asset impairments and other, net	(14.2)	—
Other unallocated manufacturing costs	(13.9)	(4.3)
Other unallocated operating expenses	(6.3)	(5.6)
Operating income	<u>\$ 33.4</u>	<u>\$ 71.5</u>

### *Interest Expense and Other*

Interest expense increased \$0.2 million to \$9.6 million in the second quarter of 2008 compared to \$9.4 million in the second quarter of 2007. Our average month-end long-term debt balance (including current maturities) in the second quarter of 2008 was \$1,226.3 million with a weighted average interest rate of 3.2% compared to \$1,145.2 million and a weighted average interest rate of 3.3% in the second quarter of 2007. See also “Liquidity and Capital Resources—Key Financing Events” for a description of our refinancing activities.

See Part I, Item 1 “Financial Statements,” Note 9: “Commitments and Contingencies” of this Form 10-Q for contingencies relating to other legal proceedings and matters including intellectual property matters.

### *Provision for Income Taxes*

Provision (benefit) for income taxes was (\$17.1) million in the second quarter of 2008 compared to \$1.4 million in the second quarter of 2007. The benefit for the second quarter of 2008 included \$3.9 million for income and withholding taxes of certain of our foreign operations and \$0.6 million of new reserves and interest on existing reserves for potential liabilities in foreign taxing jurisdictions, offset by a tax benefit of \$4.7 million recorded for one of our foreign subsidiaries with a loss, as well as the reversal of \$13.9 million of previously accrued income taxes for uncertain tax positions for which the statute lapsed. The provision for the second quarter of 2007 included \$2.3 million charge for income and withholding taxes of certain of our foreign operations and \$0.4 million of interest on reserves for potential liabilities in foreign taxing jurisdictions, offset by the reversal of \$1.2 million of previously accrued income taxes for anticipated audit issues.

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### *Six Months Ended June 27, 2008 Compared to Six Months Ended June 29, 2007*

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements for the six months ended June 27, 2008 and June 29, 2007. The amounts in the following table are in millions:

	<u>Six Months Ended</u>		<u>Dollar Change</u>
	<u>June 27, 2008</u>	<u>June 29, 2007</u>	
Revenues	\$984.6	\$755.4	\$229.2
Cost of revenues	646.4	472.8	173.6
Gross profit	338.2	282.6	55.6
Operating expenses:			
Research and development	107.8	63.2	44.6
Selling and marketing	63.7	46.2	17.5
General and administrative	55.7	39.0	16.7
In-process research and development	17.7	—	17.7
Amortization of acquisition-related intangible assets	9.1	—	9.1
Restructuring, asset impairments and other net	20.0	—	20.0
Total operating expenses	274.0	148.4	125.6
Operating income	64.2	134.2	(70.0)
Other income (expenses):			
Interest expense	(18.9)	(19.1)	0.2
Interest income	3.8	5.7	(1.9)
Other	(0.7)	(0.5)	(0.2)
Loss on debt prepayment	—	(0.1)	0.1
Other income (expenses), net	(15.8)	(14.0)	(1.8)
Income before income taxes and minority interests	48.4	120.2	(71.8)
Income tax provision	16.0	(2.0)	18.0
Minority interests	1.0	(0.9)	1.9
Net income	<u>\$ 65.4</u>	<u>\$ 117.3</u>	<u>\$ (51.9)</u>

### *Revenues*

Revenues were \$984.6 million and \$755.4 million for the six months ended June 27, 2008 and June 29, 2007, respectively. The increase from first six months of 2007 to the first six months of 2008 was primarily due to revenues from the ADI's PTC Business acquisition and AMIS acquisition, partially offset by a reduction in average selling prices of approximately 7.7%. The revenues by reportable segment were as follows (dollars in millions):

	<u>Six Months Ended June 27, 2008</u>	<u>As a % Revenue</u>	<u>Six Months Ended June 29, 2007</u>	<u>As a % Revenue</u>	<u>Dollar Change</u>	<u>% Change</u>
Automotive and Power Regulation	\$ 220.1	22%	\$ 209.9	28%	\$ 10.2	5%
Computing Products	215.4	22%	161.5	21%	53.9	33%
Digital and Consumer Products	85.7	9%	85.1	11%	0.6	1%
Standard Products	247.1	25%	247.1	33%	—	0%
Custom and Foundry Product Group	216.3	22%	51.8	7%	164.5	318%
Total revenues	<u>\$ 984.6</u>		<u>\$ 755.4</u>		<u>\$ 229.2</u>	

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Revenues from automotive and power regulation increased \$10.2 million, or 5% in the first six months of 2008 as compared to the first six months of 2007. The increase is attributable to an increase in revenues from AC to DC conversion, rectifier, and auto power products, partially offset by decreases in revenues from LDO and voltage regulator and DC to DC conversion and analog automotive products.

Revenues from computing products increased \$53.9 million, or 33%, in the first six months of 2008 as compared to the first six months of 2007. The increase is attributed to an increase in revenues from power switching, low and medium voltage MOSFET, and signal and interface products.

Revenues from digital and consumer products increased \$0.6 million, or 1% in the first six months of 2008 as compared to the first six months of 2007. The increase is attributable to an increase in revenues low voltage products, partially offset by decreases in revenues from analog switch and filter products.

Revenues from standard products remained flat in the first six months of 2008 as compared to the first six months of 2007. This is attributed to increased revenues from small signal, protection, standard logic and zener products, offset by reduced revenues in high frequency, thyristor, and bipolar power products.

Revenues from custom and foundry product group increased by \$164.5 million, or 318%, in the first six months of 2008 as compared to the first six months of 2007. The increase is attributable to revenues from the AMIS business, partially offset by a decline in activity pursuant to the LSI wafer supply agreement.

Revenues by geographic area as a percentage of revenues were as follows (dollars in millions):

	<u>Six Months Ended</u> <u>June 27, 2008</u>	<u>As a %</u> <u>Revenue <sup>(1)</sup></u>	<u>Six Months Ended</u> <u>June 29, 2007</u>	<u>As a %</u> <u>Revenue</u>
Americas	\$ 238.9	24%	\$ 195.3	26%
Asia/Pacific	563.8	57%	445.4	59%
Europe	181.9	18%	114.7	15%
Total	<u>\$ 984.6</u>	<u>100%</u>	<u>\$ 755.4</u>	<u>100%</u>

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

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices. For the six months ended June 27, 2008, one of our customers accounted for 10% of our total revenues. For the six months ended June 29, 2007, one of our customers accounted for 12% of our total revenues.

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### Gross Profit

Our gross profit was \$338.2 million in the first six months of 2008 compared to \$282.6 million in the first six months of 2007. As a percentage of revenues, our gross profit was 34.3% in the first six months of 2008 as compared to 37.4% in the first six months of 2007. Gross profit as a percentage of revenue decreased during the first six months of 2008 as compared to the first six months of 2007 primarily due to the sale of inventory that was written up to fair value in connection with the acquisitions of AMIS and the PTC Business from ADI which had a \$48.1 million impact with the decrease in average selling prices mostly offset by cost reduction activities. The gross profit by reportable segment in each of these quarters were as follows (dollars in millions):

	Six Months Ended June 27, 2008	As a % Net Revenue	Six Months Ended June 29, 2007	As a % Net Revenue	Dollar Change	% Change
Automotive & Power Regulation	\$ 86.1	8.7%	\$ 81.8	10.8%	\$ 4.3	5.3%
Computing Products	82.8	8.4%	60.8	8.0%	22.0	36.2%
Digital & Consumer Products	47.5	4.8%	44.6	5.9%	2.9	6.5%
Standard Products	103.1	10.5%	107.8	14.3%	(4.7)	-4.4%
Custom and Foundry Product Group	42.9	4.4%	(3.9)	-0.5%	46.8	1200.0%
Gross profit by segment	362.4		291.1		\$ 71.3	
Unallocated Manufacturing	(24.2)	-2.5%	(8.5)	-1.1%		
Total gross profit	\$ 338.2	34.3%	\$ 282.6	37.4%		

Gross profit from automotive and power regulation increased \$4.3 million, or 5.3%, in the first six months of 2008 as compared to the first six months of 2007. The increase is attributed to increases in gross profit from DC to DC conversion, voltage regulators, and analog automotive products, partially offset by decreases in gross profit from AC to DC conversion, rectifier, and auto power products.

Gross profit from computing products increased \$22.0 million, or 36.2%, in the first six months of 2008 as compared to the first six months of 2007. The increase is attributed to increases in gross profit from power switching, low and medium voltage MOSFET and signal and interface products.

Gross profit from digital and consumer products increased \$2.9 million, or 6.6%, in the first six months of 2008 as compared to the first six months of 2007. The increase is attributed to increases in gross profit from low voltage products, partially offset by decreases in gross profit from filters and analog switches products.

Gross profit from standard products decreased \$4.7 million, or 4.4%, in the first six months of 2008 as compared to the first six months of 2007. The decrease is attributed to decreases in gross profit from high frequency products, partially offset by increases in gross profit from protection, bipolar power products, small signal, standard logic, and zener products.

Gross profit from custom and foundry product group increased \$46.8 million, in the first six months of 2008 as compared to the first six months of 2007. The increase is attributed to gross profit from the AMIS acquisition partially offset by a \$48.1 million expense related to a step up in the inventory valuation as of the acquisition date and decreases in gross profit pursuant to the LSI wafer supply agreement.



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### *Operating Expenses*

Research and development expenses were \$107.8 million in the first six months of 2008 compared to \$63.2 million in the first six months of 2007, representing an increase of \$44.6 million, or 71%. Research and development expenses represented 10.9% and 8.4% of revenues in the first six months of 2008 and the first six months of 2007, respectively. The increase in research and development expenses was attributable to increased expense associated with on-going research and development activities at AMIS, the development of new products in our Gresham fabrication facility, the expansion of our digital production capacities in our Gresham fabrication facility and the effects of foreign currency on wages.

Selling and marketing expenses were \$63.7 million in the first six months 2008 compared to \$46.2 million the first six months of 2007, representing an increase of \$17.5 million, or 38%. Selling and marketing expenses represented 6.5% and 6.1% of revenues in the first six months of 2008 and the first six months of 2007, respectively. The increase in selling and marketing expense is primarily attributed to selling and marketing activities at AMIS combined establishment of solution engineering centers in Korea and Taiwan combined with the expansion of our sales and marketing presence in China and the effects of foreign currency on wages.

General and administrative expenses were \$55.7 million in the first six months of 2008 compared to \$39.0 million in the first six months of 2007, representing an increase of \$16.7 million, or 42.8%. General and administrative expenses represented 5.7% and 5.2% of revenues in the first six months of 2008 and the first six months of 2007, respectively. The increase in general and administrative expense is primarily attributed to increased stock compensation expense and general and administrative expense associated with AMIS, increased costs associated with AMIS integration activities, combined with the effects of foreign currency on wages, partially offset by decreased employee performance bonuses.

### *Other Operating Expenses—Restructuring, Asset Impairments and Other, Net*

Restructuring, asset impairment and other, net were \$20.0 million in the first six months of 2008 compared to zero in the first six months of 2007.

In March 2008, we acquired AMIS and announced plans to integrate the operations of the two companies for cost savings purposes. As part of these plans, certain duplicative positions were eliminated and certain overlapping or duplicative contracts with external suppliers were renegotiated with terms applicable to the combined company. During June 2008, we recorded employee separation charges of \$5.4 million and exit costs of \$2.0 million related to the 2008 acquisition of AMIS. The employee separation charges of \$5.4 million include \$0.3 million for severance benefits of 77 individuals of whom 19 were our employees prior to the acquisition and \$4.1 million for severance benefits of 16 individuals who were employees of AMIS prior to the acquisition but are required to render services until their termination date to receive severance benefits. The termination benefits for the 16 AMIS employees are being recognized ratably from the acquisition date to their termination date. We expect to record an additional \$1.1 million through the end of the fourth quarter of 2008. Additionally, we recorded severance benefits of \$0.9 million for 58 employees who were our employees prior to the acquisition. The exit costs of \$2.0 million were for charges incurred to terminate software licenses under certain lease agreements with external suppliers found to be duplicative between us and AMIS.

In March 2007, we announced plans to consolidate manufacturing efforts with the closing of one of our manufacturing facilities at our Phoenix, Arizona location. The wafer manufacturing that takes place at this facility will be transferred to our offshore lower-cost manufacturing facilities. During the quarter ended June 27, 2008, we recorded \$1.0 million of restructuring charges related to this plan for employee separation costs.

In June 2008, we made plans to consolidate a portion of operations in our Hong Kong design center. During the quarter ended June 27, 2008, we recorded \$0.3 million of restructuring charges for 6 employees that were terminated as a result of this consolidation effort.

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In March 2008, we recorded \$2.2 million of asset impairments. Prior to March 2008, we had capitalized approximately \$5.9 million of software development costs associated with modifications and enhancements to several business process and related systems. The \$2.2 million of asset impairments resulted from the fact that we currently have no plans to use certain internally developed software, and management does not consider this a temporary cessation of use. The decision to cease development of these assets in the first quarter of 2008 was triggered by the acquisition of AMIS, which required a reallocation of corporate resources from these projects to the projects associated with the integration of AMIS into our computer systems.

In June 2008, we recorded \$9.8 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. The \$9.8 million of asset impairments include \$7.9 million associated with the May 2008 announced shutdown of manufacturing facilities in Piestany, Slovakia. The announcement triggered an impairment analysis of the carrying value of the related asset group. We measured the amount of this asset impairment by comparing the carrying value of the respective assets to their related estimated fair values. We estimated future net cash flows for the period of continuing manufacturing activities and eventual disposition of the assets using price, volume, cost and salvage value assumptions that we considered reasonable in the circumstance. The impairment charge was recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value. The remaining \$1.9 million of asset impairments was for excess machinery and equipment abandoned by the Company as a result of the acquisition of AMIS.

As mentioned previously, during the quarter ended March 28, 2008, we terminated certain lease agreements with external suppliers for software licenses. These agreements had previously been recorded as capital lease obligations on the consolidated balance sheet. Included in restructuring, asset impairments and other, net on the statement of operations for the quarter ended March 28, 2008 is a gain of \$0.7 million for the reversal of the capital lease obligation, partially offset by the write-off of the net book value of the software licenses that were included in property, plant and equipment.

### *Operating Income*

Information about operating income from our reportable segments for the six months ended June 27, 2008 and June 29, 2007 are as follows, in millions:

	<u>Automotive &amp; Power Regulation</u>	<u>Computing Products</u>	<u>Digital &amp; Consumer Products</u>	<u>Standard Products</u>	<u>Custom and Foundry Product Group</u>	<u>Total</u>
Six months ended June 27, 2008:						
Segment operating income (loss)	\$ 40.8	\$ 36.3	\$ 23.7	\$ 66.3	\$ (21.6)	\$145.5
Six months ended June 29, 2007:						
Segment operating income (loss)	\$ 36.9	\$ 27.0	\$ 22.4	\$ 72.2	\$ (5.7)	\$152.8

Depreciation and amortization expense is included in segment operating income. Reconciliations of segment information to financial statements follow, in millions:

	<u>Six Months Ended</u>	
	<u>June 27, 2008</u>	<u>June 29, 2007</u>
Operating income for reportable segments	\$145.5	\$152.8
Unallocated amounts:		
Restructuring, asset impairments and other, net	(20.0)	—
Other unallocated manufacturing costs	(24.2)	(8.5)
Other unallocated operating expenses	(37.1)	(10.1)
Operating income	<u>\$ 64.2</u>	<u>\$134.2</u>

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### *Interest Expense and Other*

Interest expense decreased and was \$18.9 million in the first six months of 2008 compared to \$19.1 million in the first six months of 2007. Our average month-end long-term debt balance (including current maturities) in the first six months of 2008 was \$1,203.0 million with a weighted average interest rate of 3.2% compared to \$1,155.6 million and a weighted average interest rate of 3.3% in the first six months of 2007. See also “Liquidity and Capital Resources—Key Financing Events” for a description of our refinancing activities.

See Part I, Item 1 “Financial Statements,” Note 9: “Commitments and Contingencies” of this Form 10-Q for contingencies relating to other legal proceedings and matters including intellectual property matters.

### *Provision for Income Taxes*

Provision (benefit) for income taxes was (\$16.0) million in the first six months of 2008 compared to \$2.0 million in the first six months of 2007. The provision for the first six months of 2008 included \$5.9 million for income and withholding taxes of certain of our foreign operations and \$1.2 million of new reserves and interest on existing reserves for potential liabilities in foreign taxing jurisdictions, offset by a tax benefit of \$6.2 million recorded for one of our foreign subsidiaries with a loss, as well as the reversal of \$13.9 million of previously accrued income taxes for uncertain tax positions for which the statute has lapsed. The provision for the first six months of 2007 included \$4.1 million charge for income and withholding taxes of certain of our foreign operations and \$0.8 million of interest on reserves for potential liabilities in foreign taxing jurisdictions, and \$0.3 million of new reserves for potential liabilities in foreign taxing jurisdictions, offset by the reversal of \$3.1 million of previously accrued income taxes for anticipated audit issues.

### **Liquidity and Capital Resources**

This section includes a discussion and analysis of our cash requirements, our sources and uses of cash, our debt and debt covenants, and our management of cash.

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### Cash Requirements

#### Commercial Commitments, Contractual Obligation, Off-Balance Sheet Arrangements and Indemnities

Our principal outstanding contractual obligations relate to our long-term debt, operating leases, pension obligations and purchase obligations. The following table summarizes our contractual obligations at June 27, 2008 and the effect such obligations are expected to have on our liquidity and cash flow in the future (in millions):

	Amount of Commitment by Expiration Period						
	Total	Remainder of 2008	2009	2010	2011	2012	Thereafter
<b>Commercial commitments</b>							
Standby letter of credit <sup>(1)</sup>	\$ 1.1	\$ 1.1	\$ —	\$ —	\$ —	\$ —	\$ —
Bank guarantees <sup>(1)</sup>	13.2	1.0	5.0	—	0.2	—	7.0
<b>Commercial commitments</b>	<b>\$ 14.3</b>	<b>\$ 2.1</b>	<b>\$ 5.0</b>	<b>\$ —</b>	<b>\$ 0.2</b>	<b>\$ —</b>	<b>\$ 7.0</b>
	Payments Due by Period						
	Total	Remainder of 2008	2009	2010	2011	2012	Thereafter
<b>Contractual obligations</b>							
Long-term debt	\$ 1,232.1	\$ 19.8	\$ 113.0	\$ 292.2	\$ 28.7	\$ 127.0	\$ 651.4
Operating leases <sup>(1)(2)</sup>	81.9	11.1	18.6	14.6	11.8	9.4	16.4
Other long-term obligations—pension plans	6.7	0.7	3.0	3.0	—	—	—
Purchase obligations <sup>(1)</sup> :							
Capital purchase obligations	48.2	40.6	3.5	1.3	1.3	1.3	0.2
Foundry and inventory purchase obligations	82.8	74.2	3.3	2.7	1.2	1.4	—
Mainframe support	0.7	—	0.7	—	—	—	—
Information technology and communication services	32.2	6.4	7.7	8.6	6.5	2.8	0.2
Other	17.4	6.2	7.0	4.0	0.1	0.1	—
<b>Total contractual obligations</b>	<b>\$ 1,502.0</b>	<b>\$ 159.0</b>	<b>\$ 156.8</b>	<b>\$ 326.4</b>	<b>\$ 49.6</b>	<b>\$ 142.0</b>	<b>\$ 668.2</b>

(1) These represent our off-balance sheet arrangements.

(2) Includes the interest portion of payments for capital lease obligations.

Our long-term debt includes approximately \$173.3 million outstanding under senior bank facilities, approximately \$260.0 million of zero coupon convertible senior subordinated notes due 2024, approximately \$95.0 million of 1.875% convertible senior subordinated notes due 2025, approximately \$484.0 million of 2.625% convertible senior subordinated notes due 2026, approximately \$12.9 million outstanding under notes payable to two Japanese banks, approximately \$46.0 million outstanding under loan facilities with two Chinese banks, approximately \$23.4 million outstanding loans with three Philippine banks, approximately \$36.4 million outstanding secured financing with a Belgian bank, approximately \$0.5 million note payable to Oregon State and approximately \$100.6 million of capital lease obligations. (See Note 6: “Long-Term Debt” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q).

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

Our other long-term contractual obligations consist of estimated payments to fund liabilities that have been accrued in our consolidated balance sheet for our foreign pension plans. (See Note 5: “Balance Sheet Information” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q).

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Our balance of cash and cash equivalents was \$321.2 million at June 27, 2008 and our cash flow from operations for the three months ended June 27, 2008 was \$41.9 million. We believe that our cash flows from operations, coupled with existing cash and cash equivalents will be adequate to fund our contractual obligations and other operating and capital needs through at least June 27, 2009. Our senior bank facilities include a \$25.0 million revolving facility. Letters of credit totaling \$1.1 million were outstanding under the revolving facility at June 27, 2008. Our primary foreign exchange hedging agreement has a provision for termination if at any time the amount available under our revolving credit facility is less than \$2.5 million.

### *Contingencies*

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 face risk of exposure to warranty and product liability claims in the event that our products fail to perform as expected or such failure of our products results, or is alleged to result, in bodily injury or property damage (or both). In addition, if any of our designed products are alleged to be defective, we may be required to participate in their recall. Depending on the significance of any particular customer and other relevant factors, we may agree to provide more favorable indemnity rights to such customers for valid warranty claims.

In connection with the acquisition of LSI's Gresham, Oregon wafer fabrication facility and ADI's PTC Business, we entered into various agreements with LSI and ADI, respectively. Pursuant to certain of these agreements, we agreed to indemnify LSI and ADI, respectively, for certain things limited in most instances by time and/or monetary amounts.

We 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. 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 contracts in connection with sales of our securities and the engagement of financial advisors and also provide 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

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under any of these indemnities have not had a material effect on our business, financial condition, results of operations or cash flows and 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.

See Part II, Item 1 “Legal Proceedings” of this Form 10-Q for possible contingencies related to legal matters and see Part I, Item 1 “Business—Government Regulation” of our annual report on Form 10-K for the fiscal year ending December 31, 2007 for information on certain environmental matters.

### *Sources and Uses of Cash*

We require cash to fund our operating expenses and working capital requirements, including outlays for research and development, to make capital expenditures, strategic acquisitions and investments, to repurchase our stock, and to pay debt service, including principal and interest and capital 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 changes in demand for our products, competitive pricing pressures, effective management of our manufacturing capacity, our ability to achieve further reductions in operating expenses, the impact of our restructuring programs 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.

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. We believe that cash flow from operating activities coupled with existing cash and cash equivalents will be adequate to fund our operating and capital needs as well as enable us to maintain compliance with our various debt agreements through June 27, 2009. To the extent that results or events differ from our financial projections or business plans, our liquidity may be adversely impacted.

### *Operations*

Our operational cash flows are affected by the ability of our operations to generate cash, and our management of our assets and liabilities, including both working capital and long-term assets and liabilities. Each of these components is discussed herein:

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### EBITDA

As discussed in Note 6, “Long-Term Debt” to our unaudited consolidated financial statements included elsewhere in this report, our debt covenants require us to stay within certain leverage ratios based on the consolidated earnings (net income) before interest expense, interest income, provisions for income taxes, depreciation and amortization expense (“EBITDA”) for the last four quarters. Consolidated EBITDA, as defined under the documents for our senior bank facilities totaled approximately \$433.6 million for the four consecutive fiscal quarters ending June 27, 2008.

If we were not in compliance with the covenants contained in our senior bank facilities, the holders of our senior bank facilities could cause all outstanding amounts, which was \$173.3 million as of June 27, 2008, to be due and payable immediately. If we were unable to repay, refinance or restructure that indebtedness, the holders could proceed against the collateral securing that indebtedness. In addition, any such event of default or declaration of acceleration could also result in an event of default under one or more of our other debt instruments and have a material adverse effect on our financial condition, results of operations and liquidity. As of June 27, 2008, approximately \$911.3 million remained outstanding under other debt that may be accelerated based on this covenant.

### Working Capital

Working capital fluctuates depending on end-market demand and our effective management of certain items such as receivables, inventory and payables. In times of escalating demand, our working capital requirements may increase as we purchase additional manufacturing inputs and increase production. Our working capital may also be affected by restructuring programs, which may require us to use cash for severance payments, asset transfers and contract termination costs. Our working capital, including cash, was \$390.4 million at June 27, 2008. Our working capital, excluding cash, was \$69.2 million at June 27, 2008, and has fluctuated between \$(31.3) million and \$82.4 million over the last eight quarter-ends.

The components of our working capital at June 27, 2008 and December 31, 2007 are set forth below (in millions), followed by explanations for changes between December 31, 2007 and June 27, 2008 for cash and cash equivalents and any other changes greater than \$5 million:

	June 27, 2008	December 31, 2007	Change
<b>Current Assets</b>			
Cash and cash equivalents	\$321.2	\$ 274.6	\$ 46.6
Receivables, net	258.5	175.2	83.3
Inventories, net	327.6	220.5	107.1
Other current assets	70.7	68.3	2.4
Deferred income taxes	0.3	6.7	(6.4)
<b>Total current assets</b>	<u>978.3</u>	<u>745.3</u>	<u>233.0</u>
<b>Current Liabilities</b>			
Accounts payable	206.2	163.5	42.7
Accrued expenses	172.4	101.3	71.1
Income taxes payable	2.4	3.5	(1.1)
Accrued interest	2.9	1.4	1.5
Deferred income on sales to distributors	123.8	120.4	3.4
Current portion of long-term debt	80.2	30.8	49.4
<b>Total current liabilities</b>	<u>587.9</u>	<u>420.9</u>	<u>167.0</u>
<b>Net working capital</b>	<u>\$390.4</u>	<u>\$ 324.4</u>	<u>\$ 66.0</u>

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The increase of \$46.6 million in cash and cash equivalents is primarily due to \$178.8 million in cash provided by operating activities, \$155.4 million in cash provided by investing activities, which includes \$172.7 million of cash acquired as part of the AMIS acquisition, partially offset by \$285.4 million in cash used in financing activities.

The increase of \$83.3 million in receivables, net is primarily the result of the receivables acquired from the purchase of AMIS.

The increase of \$107.1 million in inventory is the result of raw materials, work in process and finished goods inventory obtained from the acquisition of AMIS.

The decrease of \$6.4 million in deferred income taxes is primarily due to the addition of a net current deferred liability of \$5.9 million for AMIS's Belgium subsidiary, as a part of the acquisition of AMIS. The \$5.9 million is comprised of \$4.5 million for book to tax basis difference in inventory plus a number of smaller items netting to \$1.4 million.

The increase of \$42.7 million in accounts payable is the result of liabilities assumed from the acquisition of AMIS and from liabilities for new capital equipment received during the first quarter that had not been paid by June 27, 2008.

The increase of \$71.1 million in accrued expenses was primarily attributable to the liabilities assumed from the acquisition of AMIS, increases in sales related reserves and increased expenses incurred for professional fees associated with the acquisition of AMIS.

The increase of \$49.4 million in the current portion of long-term debt was due primarily to obligations under the new Belgium and Japan loans and additional capital lease obligations

### *Long-Term Assets and Liabilities*

Our long-term assets consist primarily of property, plant and equipment, intangible assets, goodwill, foreign tax receivables and capitalized debt issuance costs.

Our manufacturing rationalization plans have included efforts to utilize our existing manufacturing assets and supply arrangements more efficiently. 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 were \$44.9 million during the first six months of 2008 compared to \$76.6 million during the first six months of 2007. We will continue to look for opportunities to make strategic purchases in the future for additional capacity.

Our long-term liabilities, excluding long-term debt, consist of liabilities under our foreign defined benefit pension plans and contingent tax reserves. In regard to our foreign defined benefit pension plans, generally, our annual funding of these obligations is equal to the minimum amount legally required in each jurisdiction in which the plans operate. This annual amount is dependent upon numerous actuarial assumptions.

### **Key Financing Events**

#### *2008 Financing Events*

##### ***June 2008 Belgian Loan***

In June 2008, one of our European subsidiaries, entered into a loan with a Belgian Bank, secured by certain assets, to pay off the March 2008 Short-Term Bridge Loan. The loan, which had a balance of \$36.4 million as of June 27, 2008, (based on the euro-to-dollar exchange rate in effect at that date), bears interest at the European



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Overnight Index Average (“EONIA”) +0.4%, with interest payable weekly. The loan amount is subject to an eligible borrowing calculation as defined in the loan agreement. The term of the agreement is six months, which automatically extends and can be cancelled thereafter by a 90 day written notification.

### ***April 2008 Japan Loan***

In April 2008, our Japanese subsidiary entered into a one-year loan agreement with a Japanese bank to finance capital expenditures and other general corporate purposes. The loan, which had a balance of \$4.6 million at June 27, 2008 (based on the yen-to-dollar exchange rate in effect at that date), bears interest at an annual rate of 1.875%, with interest payable quarterly.

### ***March 2008 Short-Term Bridge Loan***

As part of the AMIS acquisition in March 2008, we assumed the obligations under a short-term bridge loan entered into by our Belgian subsidiary. The bridge loan was with a Belgian bank for 25.0 million Euros originally due May 31, 2008 and extended until July 31, 2008 with the proceeds to be used to finance capital expenditures and other general corporate purposes. The loan interest was paid weekly based on the one week EURO Interbank Offered Rate (“Euribor”) plus 0.5%. In June 2008, the Short-Term Bridge Loan was repaid with the proceeds from the June 2008 Belgian loan

### ***Capital Lease Obligations***

We have various capital lease obligations primarily for machinery and equipment. In March 2008, we sold assets with a net book value of \$26.2 million for \$33.7 million to a leasing agency under a sale-leaseback arrangement. We deferred a gain on the transaction in the amount of \$7.5 million. Concurrently, we purchased the assets under a capital lease agreement with a net present value of minimum lease payments of \$29.3 million, which will be depreciated over the lease term of five years. In June 2008, we purchased assets under capital leases agreement with a net present value of minimum lease payments of \$14.1 million, which will be depreciated over the lease term of five years.

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### *Debt Instruments, Guarantees and Related Covenants*

The following table presents the components of long-term debt as of June 27, 2008 and December 31, 2007 (dollars in millions):

	June 27, 2008	December 31, 2007
<b>Senior Bank Facilities:</b>		
Term Loan, interest payable quarterly at 4.5506% and 6.5800%, respectively	\$ 173.3	\$ 173.7
Revolver	—	—
	173.3	173.7
Zero Coupon Convertible Senior Subordinated Notes due 2024 <sup>(1)</sup>	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025 <sup>(1)</sup>	95.0	95.0
2.625% Convertible Senior Subordinated Notes due 2026 <sup>(1)</sup>	484.0	484.0
2.25% Note payable to Japanese bank due 2008 through 2010, interest payable semi-annually	8.3	9.6
Loan with Philippine banks due 2008 through 2012, interest payable quarterly at 3.7100% and 6.2475%, respectively	23.4	25.0
Loan with Chinese bank due 2009, interest payable quarterly at 4.0013% and 6.1100%, respectively	14.0	14.0
Loan with Chinese bank due 2009, interest payable quarterly at 4.0013% and 6.1100%, respectively	6.0	6.0
Loan with Chinese bank due 2008 through 2013, interest payable semi-annually at 4.4150% and 6.0488%, respectively.	7.5	8.2
Loan with Chinese bank due 2008 through 2009, interest payable semi-annually at 3.8869% and 6.3375%, respectively.	13.5	15.7
Loan with Chinese bank due 2009, interest payable semi-annually at 3.8338% and 6.3413%, respectively	5.0	5.0
Loan with Belgian bank, interest payable weekly at 4.106%	36.4	—
5.0% Note payable to Oregon State due 2009	0.5	0.5
Short-term loan with Japanese bank due 2009, interest payable quarterly at 1.875%	4.6	—
Capital lease obligations	100.6	62.7
	1,232.1	1,159.4
Less: Current maturities	(80.2)	(30.8)
	<u>\$1,151.9</u>	<u>\$ 1,128.6</u>

- (1) The Zero Coupon Convertible Senior Subordinated Notes due 2024, the 1.875% Convertible Senior Subordinated Notes due 2025 and the 2.625% Convertible Senior Subordinated Notes due 2026 may be purchased by the Company at the option of the holders of the notes on April 15, 2010, December 15, 2012 and December 15, 2013, respectively.

We have pledged substantially all of our tangible and intangible assets and similar assets of each of our existing and subsequently acquired or organized domestic subsidiaries (but no more than 65% of the capital stock of foreign subsidiaries held by them) to secure our senior bank facilities.

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SCI LLC, the primary domestic operating subsidiary of ON Semiconductor Corporation, is the borrower under our senior bank facilities. ON Semiconductor Corporation and our other domestic subsidiaries fully and unconditionally guarantee, on a joint and several basis, the obligations of the borrower under such facilities. ON Semiconductor Corporation is the issuer, and SCI LLC is a guarantor, of our zero coupon convertible senior subordinated notes due 2024, our 1.875% convertible senior subordinated notes due 2025 and our 2.625% convertible senior subordinated notes due 2026. Our other domestic subsidiaries, with the exception of our domestic subsidiaries acquired from AMIS, fully and unconditionally guarantee on a joint and several basis the obligations of the issuers of such notes. None of our non-U.S. subsidiaries guarantee the senior bank facilities or the notes.

As of June 27, 2008, we were in compliance with the various covenants and other requirements contained in the credit agreement relating to our senior bank facilities and the indentures relating to our zero coupon convertible senior subordinated notes due 2024, our 1.875% convertible senior subordinated notes due 2025 and our 2.625% convertible senior subordinated notes due 2026. We believe that we will be able to comply with the various covenants and other requirements contained in such credit agreement and the indentures through June 27, 2009.

Our debt agreements contain, and any future debt agreements may include, a number of restrictive covenants that impose significant operating and financial restrictions on, among other things, our ability to:

- incur additional debt, including guarantees;
- incur liens;
- sell or otherwise dispose of assets;
- make investments, loans or advances;
- make some acquisitions;
- engage in mergers or consolidations;
- pay dividends, redeem capital stock or make certain other restricted payments or investments;
- pay dividends from SCI, LLC to ON Semiconductor Corporation;
- engage in sale and leaseback transactions;
- enter into new lines of business;
- issue some types of preferred stock; and
- enter into transactions with our affiliates.

Our senior bank facilities contain financial and other covenants more restrictive than those that are currently applicable should we exceed leverage and secured leverage ratios, as specified therein. Any future debt could contain financial and other covenants more restrictive than those that are currently applicable.

### *Cash Management*

Our ability to manage cash is limited, as our primary cash inflows and outflows are dictated by the terms of our sales and supply agreements, contractual obligations, debt instruments and legal and regulatory requirements. While we have some flexibility with respect to the timing of capital equipment purchases, we must invest in capital equipment on a timely basis to allow us to maintain our manufacturing efficiency and support our platforms of new products.

## Critical Accounting Policies and Estimates

The accompanying discussion and analysis of our financial condition and results of operations is based upon our audited 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 also generate revenue, although to a much lesser extent from manufacturing services provided to customers. We recognize revenue on sales to original equipment manufacturers and electronic manufacturing service providers and sales of manufacturing services net of provisions for related sales returns and allowances when persuasive evidence of an arrangement exists, title and risk of loss pass to the customer (which is generally upon shipment), the price is fixed or determinable and collectability is reasonably assured. 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 cost of revenues when the distributor informs us that they have resold the products to the end user. As a result of our inability to reliably estimate up front the effect of the returns and allowances with these distributors, we defer the related revenue and margin on sales to distributors. Although payment terms vary, most distributor agreements require payment within 30 days.

Taxes assessed by government authorities on revenue-producing transactions, including value added and excise taxes, are presented on a net basis (excluded from revenues) in the statement of operations.

Sales returns and allowances are estimated based on historical experience. Our original equipment manufacturer customers do not have the right to return our products other than pursuant to the provisions of our standard warranty. Sales to distributors, however, are typically made pursuant to agreements that provide return rights with respect to discontinued or slow-moving products. Under our general agreements, distributors are allowed to return any product that we have removed from our price book. In addition, agreements with our distributors typically contain standard stock rotation provisions permitting limited levels of product returns. However, since we defer recognition of revenue and gross profit on sales to distributors until the distributor resells the product, due to our inability to reliably estimate up front the effect of the returns and allowances with these distributors, sales returns and allowances have minimal impact on our results of operations. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related revenues are recognized, and are netted against revenues. Given that our revenues consist of a high volume of relatively similar products, our actual returns and allowances and warranty claims have not traditionally fluctuated significantly from period to period, and our returns and allowances and warranty provisions have historically been reasonably accurate.

We generally warrant that products sold to our customers will, at the time of shipment, be free from defects in workmanship and materials and conform to our approved specifications. Our standard warranty extends for a period that is the greater of (i) three years from the date of shipment or (ii) the period of time specified in the customer's standard warranty (provided that the customer's standard warranty is stated in writing and extended to purchasers at no additional charge). At the time revenue is recognized, we establish an accrual for estimated warranty expenses associated with our sales, recorded as a component of cost of revenues. In addition, we also offer cash discounts to customers for payments received by us within an agreed upon time, generally 10 days after shipment. We accrue reserves for cash discounts as a reduction to accounts receivable and a reduction to revenues, based on experience with each customer.

Freight and handling costs are included in the cost of revenues and are recognized as period expense during the period in which they are incurred.

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*Inventories.* We carry our inventories not related to an acquisition 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. 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 revenues 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 has not been material, except for the sale of obsolete leaded parts during the first quarter of 2007 for approximately \$4.0 million. Upon the acquisition of a company such as AMIS, we used management estimates to determine the fair value of the inventory as of the acquisition date. The methodology involves stepping up the value of acquired finished goods and work-in-process to expected sales value less variable costs to dispose. As of June 27, 2008, the total increase in inventory value related to recording it at fair value for the AMIS and ADI acquisitions were \$72.8 million, and \$3.1 million, respectively. As this inventory is shipped to customers, it will significantly decrease the gross margin reported on those future sales until the inventory is completely sold. For the six months ended June 27, 2008 approximately \$48.1 million of the inventory step up has been expensed to the statement of operations since the inventory was shipped to the customer.

*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, a valuation allowance was established for our domestic deferred tax assets and a portion of our foreign deferred tax assets. Additionally, throughout 2003, 2004, 2005, 2006 and continuing into 2007, no incremental domestic deferred tax benefits were recognized. Our ability to utilize our deferred tax assets and the continuing need for a related valuation allowance are monitored on an ongoing basis.

*Impairment of Long-Lived Assets.* We evaluate the recoverability of the carrying amount of our 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. 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. In recent years, most of our assets that have been impaired consist of assets that were ultimately abandoned, sold or otherwise disposed of due to cost reduction activities and the consolidation of our manufacturing facilities. In some instances, these assets have subsequently been sold for amounts higher than their impaired value. When material, these gains are recorded in the restructuring, asset impairment and other, net line item in our consolidated statement of operations and disclosed in the footnotes to the financial statements.

*Goodwill.* We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred in accordance with the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"), which 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 is unnecessary. To date, our goodwill has not been considered to be impaired based on the results of this first step.

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*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 impact the expense recognition and cash funding requirements of our pension plans.

*Asset Retirement Obligations.* We recognize asset retirement obligations ("AROs") when incurred, with the initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. In addition, asset retirement costs are capitalized as part of the related asset's carrying value and are depreciated over the asset's respective useful life. Our AROs consist primarily of estimated decontamination costs associated with manufacturing equipment and buildings.

*Contingencies.* We are involved in a variety of legal matters that arise in the normal course of business. Based on the available information, we evaluate the relevant range and likelihood of potential outcomes. In accordance with SFAS No. 5, "Accounting for Contingencies," we record the appropriate liability when the amount is deemed probable and estimable.

*Valuation of Stock Compensation.* The fair value of each option grant is estimated on the date of grant using a lattice-based option valuation model. The lattice model uses: 1) a constant volatility; 2) an employee exercise behavior model (based on an analysis of historical exercise behavior); and 3) the treasury yield curve to calculate the fair value of shares issued for each option grant. We continue to use the Black-Scholes option-pricing model to calculate the fair value of shares issued under the 2000 Employee Stock Purchase Plan.

### **Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree, as well as the goodwill acquired. Significant changes from current practice resulting from SFAS 141(R) include the expansion of the definitions of a "business" and a "business combination." For all business combinations (whether partial, full or step acquisitions), the acquirer will record 100% of all assets and liabilities of the acquired business, including goodwill, generally at their fair values; contingent consideration will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settlement; and acquisition-related transaction and restructuring costs will be expensed rather than treated as part of the cost of the acquisition. SFAS 141(R) also establishes disclosure requirements to enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is not permitted. We are currently evaluating the potential impact the adoption of SFAS 141(R) will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its

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noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating the impact the adoption of SFAS 160 will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. The provisions of SFAS 161 are effective for any quarter ending after February 28, 2009. We are currently evaluating the impact of the provisions of SFAS 161.

In May 2008, the FASB issued SFAS No. 162 “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. The provisions of SFAS 162 are effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. We are currently evaluating the impact of this statement SFAS 162, and does not expect that this statement will result in a change in current practice.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1 (“FSP”). The FSP specifies that issuers of convertible debt instruments that permit or require the issuer to pay cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company will need to apply the guidance retrospectively to all past periods presented, even to instruments that have matured, converted, or otherwise been extinguished as of the effective date. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We have determined the impact of the adoption of APB 14-1 will have a material impact on the results of operations due to higher non-cash interest expense and initially improve our perceived financial position as equity will increase and debt will decrease.

In May 2008, the FASB issued SFAS No. 163 (“SFAS 163”), *Accounting for Financial Guarantee Insurance Contracts—An interpretation of FASB Statement No. 60*. SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise’s risk-management activities. SFAS 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. We are currently evaluating the impact of SFAS No. 163 on our financial position and results of operations.

In June 2008, the Emerging Issues Task Force (“EITF”) issued Issue No. 07-05, “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock” (“Issue 07-05”). EITF No. 07-05 addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity’s own stock, if an instrument (or an embedded feature) that has the characteristics of a derivative instrument is indexed to an entity’s own stock, it is still necessary to evaluate whether it is classified in stockholders’ equity (or would be classified in stockholders’ equity if it were a freestanding instrument). In addition, some instruments that are potentially subject to the guidance in EITF Issue No. 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” (“Issue 00-19”) but do not have all the characteristics of a derivative instrument under paragraphs 6 through 9, it is still necessary to evaluate whether it is classified in stockholders’ equity. It is effective for financial statements issued for fiscal years beginning after

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December 15, 2008. We are currently evaluating the impact that Issue 07-05 will have on our consolidated financial statements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. To mitigate these risks, we utilize derivative financial instruments. We do not use derivative financial instruments for speculative or trading purposes.

At June 27, 2008, our long-term debt (including current maturities) totaled \$1,232.1 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled \$953.0 million. We do have interest rate exposure with respect to the \$279.1 million outstanding balance on our variable interest rate debt. A 50 basis point increase in interest rates would impact our expected annual interest expense for the next twelve months by approximately \$1.4 million. However, some of this impact would be offset by additional interest earned on our cash and cash equivalents as a result of the higher rates.

Our primary foreign exchange hedging agreement has a provision for termination if at any time the amount available under our revolving credit facility becomes less than \$2.5 million.

A majority of our revenue, expense and capital purchasing activities are transacted in U.S. dollars. However, as a multinational business, we also conduct certain of these activities through transactions denominated in a variety of other currencies. We use forward foreign currency contracts to hedge firm commitments and reduce our overall exposure to the effects of currency fluctuations on our results of operations and cash flows. Gains and losses on these foreign currency exposures would generally be offset by corresponding losses and gains on the related hedging instruments. This strategy reduces, but does not eliminate, the short-term impact of foreign currency exchange rate movements. For example, changes in exchange rates may affect the foreign currency sales price of our products and can lead to increases or decreases in sales volume to the extent that the sales price of comparable products of our competitors are less or more than the sales price of our products. Our policy prohibits speculation on financial instruments, trading in currencies for which there are no underlying exposures, or entering into trades for any currency to intentionally increase the underlying exposure.

### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 (“Exchange Act”) Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Controls Over Financial Reporting.* On March 17, 2008, we acquired AMIS. AMIS operated under its own set of systems and internal controls and we are currently maintaining those systems and much of that control environment until we are able to incorporate AMIS’ processes into our own systems and control environment. We currently expect to complete the incorporation of AMIS’ operations into our systems and control environment in the first half of 2009.

There have been no other changes to our internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended June 27, 2008 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings

We currently 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 or referred to in the next paragraphs will have a material effect on our financial condition, results of operations or cash flows. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, our business, consolidated financial position, results of operations or cash flows could be materially and adversely affected.

#### Securities Class Action Litigation

During the period July 5, 2001 through July 27, 2001, we were named as a defendant in three shareholder class action lawsuits that were filed in federal court in New York City against us and certain of our former officers, current and former directors and the underwriters for our 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 (“District Court”). 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 our initial public offering improperly required their customers to pay the underwriters’ excessive commissions and to agree to buy additional shares of our common stock in the aftermarket as conditions of receiving shares in our initial public offering. The amended complaint further alleges that these supposed practices of the underwriters should have been disclosed in our 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 have all been transferred, along with the case against us, to a single federal district court judge for purposes of coordinated case management. We believe that the claims against us are without merit and have defended, and intend to continue to defend, the litigation vigorously. The litigation process is inherently uncertain, however, and we cannot guarantee that the outcome of these claims will be favorable for us.

On July 15, 2002, together with the other issuer defendants, we 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 former officers and current and former directors who were named as defendants in our litigation, and they are no longer parties to the litigation. On February 19, 2003, the District Court issued its ruling on the motions to dismiss filed by the underwriter and issuer defendants. In that ruling the District Court granted in part and denied in part those motions. As to the claims brought against us under the antifraud provisions of the securities laws, the District 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 District Court denied the motion to dismiss these claims as to us and as to substantially all of the other issuer defendants as well. The District 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, we elected to participate in a proposed settlement with the plaintiffs in this litigation. Had it been approved by the District Court, this proposed settlement would have resulted in the dismissal, with prejudice, of all claims in the litigation against us and against any of the other issuer defendants who elected to participate in the proposed

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settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. This proposed settlement was conditioned on, among other things, a ruling by the District Court that the claims against us and against the other issuers who had agreed to the settlement would be certified for class action treatment for purposes of the proposed settlement, such that all investors included in the proposed classes in these cases would be bound by the terms of the settlement unless an investor opted to be excluded from the settlement in a timely and appropriate fashion.

On December 5, 2006, the U.S. Court of Appeals for the Second Circuit (“Court of Appeals”) issued a decision in *In re Initial Public Offering Securities Litigation* that six purported class action lawsuits containing allegations substantially similar to those asserted against us could not be certified as class actions due, in part, to the Court of Appeals’ determination that individual issues of reliance and knowledge would predominate over issues common to the proposed classes. On January 8, 2007, the plaintiffs filed a petition seeking rehearing *en banc* of this ruling. On April 6, 2007, the Court of Appeals denied the plaintiffs’ petition for rehearing of the Court of Appeals’ December 5, 2006 ruling. The Court of Appeals, however, noted that the plaintiffs remained free to ask the District Court to certify classes different from the ones originally proposed which might meet the standards for class certification that the Court of Appeals articulated in its December 5, 2006 decision. The plaintiffs have since moved for certification of different classes in the District Court.

In light of the Court of Appeals’ December 5, 2006 decision regarding certification of the plaintiffs’ claims, the District Court entered an order on June 25, 2007 terminating the proposed settlement between the plaintiffs and the issuers, including us. Because any possible future settlement with the plaintiffs, if a settlement were ever to be negotiated and ultimately agreed to, would involve the certification of a class action for settlement purposes, the impact of the Court of Appeals’ rulings on the possible future settlement of the claims against us cannot now be predicted.

On August 14, 2007, the plaintiffs filed amended complaints in the six focus cases. The issuer defendants and the underwriter defendants separately moved to dismiss the claims against them in the amended complaints in the six focus cases. In addition, on October 1, 2007, the plaintiffs submitted their briefing in support of their motions to certify different classes in the six focus cases. The issuer defendants and the underwriter defendants filed separate oppositions to those motions on December 21, 2007. The motions to certify classes in the six focus cases are now fully briefed and pending. On March 26, 2008, the District Court issued an order in which it denied in substantial part the motions to dismiss the amended complaints in the six focus cases.

We intend to continue to defend the litigation vigorously. While we can make no assurances or guarantees as to the outcome of these proceedings, we believe that the final result of this action will have no material effect on our consolidated financial position, results of operations or cash flows.

### **Intellectual Property Matters**

We face risk to exposure from claims of infringement of the intellectual property rights of others. In the ordinary course of business, we receive letters asserting that our products or components breach another party’s rights. These threats may seek that we make royalty payments, that we stop use of such rights, or other remedies. We are in binding arbitration on one such claim under an existing license agreement. The arbitration hearing occurred late last year and the panel issued an Interim Reasoned Award on March 20, 2008 containing a final decision and ruling that none of our accused products infringed the asserted patent. Per the terms of the license agreement, this decision is binding and non-appealable. However, on April 10, 2008, the other party filed a motion with the panel to reconsider its decision on the merits, which we have opposed as being impermissible and procedurally improper. On May 1, 2008, the panel issued its decision and order denying the other party’s motion to reconsider the Interim Reasoned Award. On May 19, 2008, we filed a motion to recover our costs, arbitrators’ fees, and attorneys’ fees. On July 11, 2008, the panel issued a decision in our favor and ordered the other party to pay us substantially all of our costs and fees. On June 20, 2008, the other party filed motions to vacate in part the panel’s Interim Reasoned Award. One motion was filed in Arizona State Court and the other

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motion was filed in Arizona Federal District Court. We believe both motions are without merit and we intend to challenge them vigorously. While we can make no assurances or guarantees as to the outcome of these proceedings, we believe that the final result of this action will have no material effect on our consolidated financial position, results of operations or cash flows.

On April 18, 2008, LSI Logic Corporation (“LSI”) and Agere Systems Inc. (“Agere”) (which was acquired by LSI in 2007) filed a new patent infringement action with the U.S. International Trade Commission naming 18 semiconductor companies including us. LSI and Agere also filed a parallel patent infringement lawsuit against the same companies in the Federal District Court in the Eastern District of Texas. LSI and Agere are seeking an injunction and damages in an unspecified amount relating to such alleged infringement. The patent relates to semiconductor wafer processing. We believe that we are already licensed to the asserted patent through pre-existing patent license agreements with LSI and Agere, and that these licenses cover all of our relevant wafer operations. We are attempting to resolve the matter informally with LSI and Agere, but if that is not successful, we intend to defend the litigation vigorously. While we can make no assurances or guarantees as to the outcome of these proceedings, we believe that the final result of this action will have no material effect on our consolidated financial position, results of operations or cash flows.

Prior to the acquisition of AMIS by us on March 17, 2008, on July 19, 2007, AMIS was served with an amended complaint filed against its operating company, AMI Semiconductor, Inc., and its Belgian subsidiary, AMI Semiconductor Belgium B.V.B.A., by PowerDsine, Inc., and PowerDsine, Ltd., subsidiaries of MicroSemi Corporation, in the United States District Court for the Southern District of New York related to AMIS’s recently announced power-over-Ethernet (“PoE”) products. The complaint alleges that AMIS breached the terms of a nondisclosure agreement between PowerDsine and its Belgian subsidiary by using PowerDsine’s confidential information to develop AMIS’s PoE products and that AMIS interfered with an employment contract they had with a former employee who left PowerDsine and came to work for AMIS. This second claim was later dismissed by PowerDsine on August 10, 2007. In the complaint, PowerDsine seeks injunctive relief and damages in excess of \$150.0 million. AMIS has denied PowerDsine’s claims and has filed counterclaims against PowerDsine and Microsemi. Discovery in the case is proceeding with completion of discovery expected by the end of August 2008, and an initial pre-trial conference scheduled for September 16, 2008. We believe that PowerDsine’s asserted claims are without merit and that resolution of this matter will not have a material adverse effect on our consolidated financial position, results of operations or cash flow.

Prior to the acquisition of AMIS by us on March 17, 2008, in January 2003, Ricoh Company, Ltd. (“Ricoh”) filed in the U.S. District Court for the District of Delaware a complaint against AMIS and other parties alleging infringement of a patent owned by Ricoh. The case has been transferred to the U.S. District Court for the Northern District of California. Ricoh is seeking an injunction and damages in an unspecified amount relating to such alleged infringement. The patents relate to certain methodologies for the automated design of custom semiconductors. This case had been scheduled to go to trial in March 2007. However, in December 2006 the court issued an order staying the case pending a re-examination proceeding filed by Synopsys, Inc. (“Synopsys”) before the U.S. Patent & Trademark Office (“PTO”) challenging the validity of the patent claims at issue in this case. In December 2007, the PTO issued a final rejection of all claims over prior art. Ricoh filed a response to the final rejection in January 2008, which is currently under review by the PTO. On March 28, 2008, an additional re-examination petition was filed by Synopsys with the PTO challenging the validity of the claims at issue on new grounds. On April 17, 2008 the stay order was lifted despite the ongoing examination proceedings by the PTO and the court scheduled a hearing for September 26, 2008. On June 17, 2008, the PTO granted Synopsys’s March 28, 2008 petition for re-examination stating that a substantial new question of patentability affecting certain claims has been raised. We believe that the asserted claims are without merit, and even if meritorious, that we will be indemnified against damages by Synopsys, and that resolution of this matter will not have a material adverse effect on our consolidated financial position, results of operations, financial condition or cash flows.

**Item 1A. Risk Factors**

This Form 10-Q includes “forward-looking statements,” as that term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q could be deemed forward-looking statements, particularly statements about our plans, strategies and prospects under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “will,” “intends,” “plans,” or “anticipates,” or by discussions of strategy, plans or intentions. All forward-looking statements in this Form 10-Q are made based on our current expectations and estimates, and involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in forward-looking statements. Among these factors are, as discussed more below, our revenues and operating performance, changes in overall economic conditions, the cyclical nature of the semiconductor industry, changes in demand for our products, changes in inventories at our customers and distributors, technological and product development risks, availability of raw materials, competitors’ actions, pricing and gross margin pressures, loss of key customers, order cancellations or reduced bookings, changes in manufacturing yields, control of costs and expenses, significant litigation, risks associated with acquisitions and dispositions (including the recently completed purchase of the PTC Business from ADI and the completed merger transaction with AMIS), risks associated with our substantial leverage and restrictive covenants in our debt agreements, risks associated with our international operations, the threat or occurrence of international armed conflict and terrorist activities both in the United States and internationally, risks and costs associated with increased and new regulation of corporate governance and disclosure standards (including pursuant to Section 404 of the Sarbanes-Oxley Act of 2002), and risks involving environmental or other governmental regulation. Additional factors that could affect our future results or events are described under Part I, Item 1A. “Risk Factors” in our Form 10-K for the fiscal year ended December 31, 2007 and from time to time in our other Securities and Exchange Commission reports. Among other portions of this Form 10-Q, Management’s Discussion and Analysis of Financial Condition and Results of Operations and the unaudited consolidated financial statements and related notes should be read in conjunction with these risk and other factors we have identified for a full understanding of our operations and financial condition. Readers are cautioned not to place undue reliance on our forward-looking statements. We assume no obligation to update such information.

The risk factors included in our Form 10-K and our Form 10-Q for the quarterly period ended March 28, 2008 have not materially changed other than as follows.

(1) With respect to certain amendments to a Form 10-K risk factor amended and restated below:

***Our international operations subject us to risks inherent in doing business on an international level that could adversely impact our results of operations.***

A significant amount of our total revenue is derived from the Americas, the Asia/Pacific region and Europe (including the Middle East), respectively. Similarly, we maintain significant operations in these regions. In addition, we rely on a number of contract manufacturers whose operations are primarily located in the Asia/Pacific region. We cannot assure you that we will be successful in overcoming the risks that relate to or arise from operating in international markets. Risks inherent in doing business on an international level include, among others, the following:

- economic and political instability (including as a result of the threat or occurrence of armed international conflict or terrorist attacks);
- changes in regulatory requirements, tariffs, customs, duties and other trade barriers;
- transportation delays;
- power supply shortages and shutdowns;

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- difficulties in staffing and managing foreign operations, exposure to foreign labor laws and other employment and labor issues;
- currency convertibility and repatriation;
- taxation of our earnings and the earnings of our personnel; and
- other risks relating to the administration of or changes in, or new interpretations of, the laws, regulations and policies of the jurisdictions in which we conduct our business.

(2) With respect to an additional risk factor relating to our July 17, 2008 announcement on Form 8-K that we signed a definitive agreement to acquire Catalyst Semiconductor, Inc. ("Catalyst"):

### ***We may be subject to a variety of risks and uncertainties as a result of the proposed transaction with Catalyst.***

The proposed transaction with Catalyst may involve a number of risks and uncertainties. Such risks and uncertainties include a variety of factors, some of which are beyond our or Catalyst's control. In particular, such risks and uncertainties include, among other things, difficulties encountered in integrating merged businesses, further distraction of management, the risk that the transaction does not close, including the risk that the requisite stockholder and regulatory approvals may not be obtained, and the risks and uncertainties relating to the performance of the combined company following the proposed transaction.

### ***Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.***

None.

### ***Item 3. Defaults Upon Senior Securities.***

None.

### ***Item 4. Submission of Matters to a Vote of Security Holders.***

Set forth below is information concerning each matter submitted to a vote at our 2008 annual meeting of stockholders held on May 14, 2008.

*Election of Directors.* Each of the following three persons was elected as a Class III Director, to hold office for a three-year term expiring at the 2011 annual meeting or until his successor has been duly elected and qualified, or until the earlier of his resignation, removal or disqualification:

<u>Nominee</u>	<u>For</u>	<u>Withheld</u>
Keith D. Jackson	319,328,371	12,624,919
Francis P. Barton	329,795,099	2,158,191
Phillip D. Hester	329,528,846	2,424,444

*Independent Registered Public Accounting Firm.* The appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm, for the year ending December 31, 2008 was ratified by the following votes:

<b>For:</b>	330,878,366
<b>Against:</b>	995,441
<b>Abstain:</b>	79,483

### ***Item 5. Other Information***

None.

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### **Item 6. Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
2.1	First Amendment to Purchase and Sale Agreement among Analog Devices, Inc. and Analog Devices B.V. and Semiconductor Components Industries, LLC, ON Semiconductor Trading, Ltd. and ON Semiconductor Ireland Research and Design Limited dated May 21, 2008 <sup>(1)</sup>
2.2	Agreement and Plan of Merger and Reorganization, dated July 16, 2008, by and among ON Semiconductor Corporation, Centaur Acquisition Corporation and Catalyst Semiconductor, Inc. (incorporated by reference from Exhibit 2.1 to the Company's Current Report Form 8-K filed with the SEC on July 17, 2008)*
10.1	Performance Based Restricted Stock Units Award Agreement under the ON Semiconductor 2000 Stock Incentive Plan (Form of Performance Based Award for Certain Officers (for Donald Colvin)) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 19, 2008) <sup>(3)</sup>
10.2	Performance Based Restricted Stock Units Award Agreement under the ON Semiconductor 2000 Stock Incentive Plan (Form of Performance Based Award for Certain Officers (for Robert Mahoney and John Nelson)) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on May 19, 2008) <sup>(3)</sup>
10.3	Amendment No. 6 to Employment Agreement with Keith Jackson executed on April 23, 2008 <sup>(1)(3)</sup>
10.4	Amendment No. 1 to Employment Agreement with Donald Colvin executed on April 23, 2008 <sup>(1)(3)</sup>
10.5	Amendment No. 1 to Employment Agreement with George H. Cave executed on April 23, 2008 <sup>(1)(3)</sup>
10.6	Amendment No. 2 to Employment Agreement with Robert Mahoney executed on April 29, 2008 <sup>(1)(3)</sup>
10.7	Amendment No. 1 to Employment Agreement with John Nelson executed on April 23, 2008 <sup>(1)(3)</sup>
31.1	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 <sup>(1)</sup>
31.2	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 <sup>(1)</sup>
32.1	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <sup>(2)</sup>

\* Certain schedules have been omitted and the Company agrees to furnish supplementally to the SEC a copy of any omitted schedules upon request.

(1) Filed herewith.

(2) Furnished herewith.

(3) Management contract or compensatory plan, contract, or arrangement.

**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: August 5, 2008

ON SEMICONDUCTOR CORPORATION  
(Registrant)

By: \_\_\_\_\_ /s/ DONALD COLVIN  
**Donald Colvin**  
**Executive Vice President and Chief**  
**Financial Officer**

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\* Certain schedules have been omitted and the Company agrees to furnish supplementally to the SEC a copy of any omitted schedules upon request.

(1) Filed herewith.

(2) Furnished herewith.

(3) Management contract or compensatory plan, contract, or arrangement.



FIRST AMENDMENT

TO

PURCHASE AND SALE AGREEMENT

AMONG

ANALOG DEVICES, INC.

and

ANALOG DEVICES B.V.

(the "Sellers")

and

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC,

ON SEMICONDUCTOR TRADING, LTD.

and

ON SEMICONDUCTOR IRELAND RESEARCH AND DESIGN LIMITED

(the "Buyers")

May 21, 2008

## FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT

This FIRST AMENDMENT dated as of May 21, 2008 (the "Amendment"), to the PURCHASE AND SALE AGREEMENT (the "Agreement") dated as of November 8, 2007 among Analog Devices, Inc., a Massachusetts corporation (the "Parent"), Analog Devices B.V., an entity organized under the laws of The Netherlands ("ADBV") and together with Parent, each individually referred to herein as a "Seller" and collectively referred to herein as the "Sellers"), Semiconductor Components Industries, LLC, a Delaware limited liability company ("SCI"), ON Semiconductor Trading, Ltd., an entity organized under the laws of Bermuda and a wholly-owned subsidiary of SCI ("ON Bermuda"), and ON Semiconductor Ireland Research and Design Limited, an Ireland corporation and wholly-owned subsidiary of SCI ("Irish Newco") and together with SCI and ON Bermuda, each, a "Buyer" and collectively, the "Buyers"). The Sellers and the Buyers are referred to collectively herein as the "Parties."

### INTRODUCTION

1. The Sellers and the Buyers are parties to the Agreement and wish to amend the Agreement in accordance with the terms of this Amendment.
2. Pursuant to Section 12.7 of the Agreement, the Parties may mutually amend the Agreement in writing signed by all of the Parties.
3. The actions required by Section 12.7 of the Agreement to enter into this Amendment have been taken by each party to this Amendment.
4. Capitalized terms used in this Amendment but not defined herein shall have the meanings ascribed to them in the Agreement.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties agree as follows:

### ARTICLE I DELIVERABLES

1.1 Deliverables Upon Execution of the Amendment. Concurrent with the execution of this Amendment:

(a) the Sellers and Buyers shall execute and deliver an Amended and Restated Assumption Agreement in substantially the form attached hereto as Exhibit A;

(b) the Sellers and the Buyers shall execute and deliver an Amended and Restated Escrow Agreement in substantially the form attached hereto as Exhibit B;

(c) the Sellers and SCI shall execute and deliver the First Amendment to the ADICE License Agreement in substantially the form attached hereto as Exhibit C; and

(d) SCI shall execute and deliver (or cause to be executed and delivered) such other instruments as any Seller may reasonably request in order to effect the assumption by the relevant Buyer of the Assumed Liabilities.

The documents in paragraphs (a)-(d) of this Section 1.1 are referred to collectively as the “Ancillary Amendments.”

**ARTICLE II**  
**REPRESENTATIONS AND WARRANTIES OF THE PARTIES**

2.1 Representations and Warranties of the Sellers. Parent represents and warrants to the Buyers as follows:

(a) Organization and Corporate Power. Each of the Sellers is a corporation duly organized, validly existing and, where applicable, in good standing under the laws of its respective jurisdiction of organization. Each Seller has all requisite corporate power and authority to carry on the business in which it is now engaged and to own and use the properties now owned and used by it.

(b) Authority. Each Seller has all requisite corporate power and authority to execute and deliver this Amendment and the Ancillary Amendments to which it is a party and to perform its obligations hereunder and thereunder. The execution and delivery by each Seller of this Amendment and such Ancillary Amendments and the consummation by each Seller of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action on the part of each Seller. This Amendment and the Ancillary Amendments have been validly executed and delivered by each Seller and, assuming this Agreement and each such Ancillary Amendment constitute the valid and binding obligation of the Buyers, constitute a valid and binding obligation of each Seller, enforceable against each Seller in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to or affecting the rights of creditors generally and by equitable principles, including those limiting the availability of specific performance, injunctive relief and other equitable remedies and those providing for equitable defenses.

2.2 Representations and Warranties of the Buyers. SCI represents and warrants to each Seller as follows:

(a) Organization. Each Buyer is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it was formed. Each Buyer has all requisite limited liability company or corporate power, as the case may be, and authority to carry on the business in which it is now engaged and to own and use the properties now owned and used by it.

(b) Authority. Each Buyer has all requisite limited liability company or corporate power, as the case may be, and authority to execute and deliver this Amendment and the Ancillary Amendments to which it is a party and to perform its obligations hereunder and thereunder. The execution and delivery by each Buyer of this Amendment and such Ancillary

Amendments to which it is a party and the consummation by each Buyer of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary limited liability company or corporate action, as the case may be on the part of each Buyer. This Amendment and the Ancillary Amendments have been validly executed and delivered by each such Buyer and, assuming this Amendment and each such Ancillary Amendment constitute the valid and binding obligation of the Sellers, this Amendment and such Ancillary Amendments to which a Buyer is a party constitute a valid and binding obligation of each such Buyer, in each case, enforceable against each such Buyer, in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws relating to or affecting the rights of creditors generally and by equitable principles, including those limiting the availability of specific performance, injunctive relief and other equitable remedies and those providing for equitable defenses.

### **ARTICLE III AMENDMENTS**

3.1 Escrow Fund. The first sentence of Section 1.2(c) of the Agreement is hereby deleted in its entirety and replaced with the following:

“At the Closing, the Buyers shall deposit a portion of the Purchase Price equal to \$1.0 million (the “Escrow Fund”) into an escrow account pursuant to an Escrow Agreement referred to in Section 1.3(b) below which shall be available to satisfy claims for Damages pursuant to Section 6.1(e) in respect of the matters described in Schedule 1.2(c)(ii) hereof.”

3.2 Indemnification.

(a) Section 6.1(d) of the Agreement is hereby deleted in its entirety and replaced with the following: “intentionally omitted; or”.

(b) Section 6.7(d) of the Agreement is hereby deleted in its entirety and replaced with the following: “intentionally omitted; and”.

3.3 Covenant Not to Compete.

(a) Section 10.2(a) of the Agreement is hereby deleted in its entirety and replaced with the following:

“During the Restricted Period, the Sellers shall not and shall cause their Affiliates not to, directly or indirectly, without the prior written consent of SCI, engage in a Competitive Business Activity anywhere in the Restricted Territory. Notwithstanding the foregoing, the restrictions in this Section 10.2 shall not apply to any third party acquirer of any Seller or to any Affiliates of such third party acquirer; provided that, neither of the Sellers may grant any license or sublicense to any Licensed Intellectual Property, Licensed Technology, Transferred Intellectual Property or Transferred Technology to any such third party acquirer or any of its Affiliates in the Restricted Field during the Restricted Period.”

(b) Section 10.2(b)(i) of the Agreement is hereby deleted in its entirety and replaced with the following:

“Competitive Business Activity” shall mean engaging in, whether directly or as owner, partner, shareholder (other than in respect of an ownership interest of less than 5% of the voting stock of any publicly traded company), lender, investor, consultant, agent, co-venturer or otherwise, or managing or directing Persons engaged in, activities constituting or involving the Restricted Field, including, without limitation, the designing, developing, manufacturing, marketing, selling, licensing, supporting, and maintaining of products intended by the Sellers or their Affiliates, or specifically designed or marketed by the Sellers or their Affiliates, for use in the Restricted Field; provided that none of the foregoing shall limit the Sellers’ or their Affiliates’ ability to engage in business with any such Persons for activities outside the Restricted Field during the Restricted Period, so long as the Sellers do not use the Transferred Intellectual Property Rights, the Transferred Technology, the Licensed Intellectual Property Rights or the Licensed Technology in activities constituting or involving the Restricted Field.”

3.4 Use of Retained Marks in Transferred Technology. The first sentence of Section 10.5 of the Agreement is hereby deleted in its entirety and replaced with the following:

“Immediately after the Closing Date, the Sellers shall remove from their web sites (and the web sites of any Affiliates) all text, images and other content contained in such web sites relating to the Products or Acquired Assets or otherwise relating exclusively to the Business, and shall insert on such web sites an appropriate notice prepared with SCI directing visitors to such web sites expressing an interest in the Products to SCI’s web site (the “Direction Notices”); provided, however, that the Sellers shall be under no obligation to maintain the Direction Notices on their web sites on or after December 31, 2008.”

3.5 Schedules and Disclosure Schedule to the Agreement.

[INTENTIONALLY OMITTED]

**ARTICLE IV  
MISCELLANEOUS**

4.1 Full Force and Effect. Except as expressly modified by this Amendment, the Agreement is unmodified and this Amendment shall not impair the full force and effect of the Agreement.

4.2 Governing Law. This Amendment and any disputes hereunder shall be governed by and construed in accordance with the internal laws of New York without giving effect to any choice or conflict of law provision or rule (whether of New York or any other jurisdiction) that would cause the application of laws of any jurisdiction other than those of New York.

4.3 Counterparts and Facsimile Signature. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. This Amendment may be executed by facsimile or .pdf signature.

*[Remainder of page intentionally left blank]*

IN WITNESS WHEREOF, the Parties have executed this Amendment as of the date first above written.

SELLERS:

ANALOG DEVICES, INC.

By: /s/ WILLIAM A. MARTIN

Name: William A. Martin

Title: Treasurer and Director of M&A

ANALOG DEVICES B.V.

By: /s/ MARGARET SEIF

Name: Margaret Seif

Title: Managing Director

BUYERS:

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin

Title: Executive Vice President and Chief Financial Officer

ON SEMICONDUCTOR TRADING, LTD.

By: /s/ ANNE-MARIE HEBERT

Name: Anne Marie Hebert

Title: General Manager, Vice President

ON SEMICONDUCTOR IRELAND  
RESEARCH AND DESIGN LIMITED

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin

Title: Director

*[First Amendment to Purchase and Sale Agreement Signature Page]*

**AMENDMENT NO. 6 TO EMPLOYMENT AGREEMENT**

**WHEREAS**, ON Semiconductor Corporation ("Company") and Keith Jackson ("Executive") entered into an Employment Agreement dated as of November 10, 2002 ("Agreement");

**WHEREAS**, all defined terms used herein shall have the meanings set forth in the Agreement unless specifically defined herein;

**WHEREAS**, the Agreement was subsequently amended on several times with the most recent amendment being as of September 1, 2006 for various reasons;

**WHEREAS**, the Agreement includes provisions pertaining to Section 409A of the Internal Revenue Code of 1986, as amended ("Internal Revenue Code") which relates to non-qualified deferred compensation arrangements;

**WHEREAS**, one of the Internal Revenue Code Section 409A provisions in the Agreement requires that certain separation from service payments to the Executive be delayed for six months;

**WHEREAS**, subsequent to the Executive entering into the Agreement with the Company the final regulations under Internal Revenue Code Section 409A were issued and such final regulations clarified various aspects regarding this tax matter;

**WHEREAS**, now that the final regulations under Internal Revenue Code Section 409A have been issued and as a result of these final regulations, the Company and Executive wish to amend the Agreement to, among other things, permit a distribution following the Executive's separation from service (i.e., without a six month delay in payment) as permitted pursuant to the "separation pay exception" set forth in Treasury Regulation Section 1.409A-1(b)(9) and to clarify certain other matters with respect to Internal Revenue Code Section 409A; and

**WHEREAS**, the Board of Directors of the Company and its Compensation Committee have both reviewed and considered this matter and this Amendment No. 6 to the Agreement ("Amendment").

**NOW, THEREFORE**, for mutual consideration the receipt of which is hereby acknowledged, the Agreement is hereby amended as follows:

1. Section 5(a) of the Agreement related to "Termination Payments" and "Without Cause" is hereby amended by replacing the first sentence thereof with the following language, in order to, among other things, provide for the "separation pay exception" to Internal Revenue Code Section 409A:

"(a) *Without Cause*. In the event of the termination of the Executive's employment during the Employment Period by the Company without Cause (including a deemed termination without Cause as provided for in Section 3(f) (i.e., "Good Reason")), in



addition to the Executive's accrued but unused vacation and Base Salary through the Date of Termination (to the extent not theretofore paid) the Executive shall be entitled to continue to receive his Base Salary at the rate in effect as of the Date of Termination for a period of two years following the Date of Termination, with such Base Salary to be paid in accordance with the Company's normal payroll practices; provided, however, that the amount of payments during the six-month period following the Date of Termination shall not exceed the separation pay exception amount set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) (any amount subject to the separation pay exception limitation shall be paid in a lump sum on the six-month anniversary of the Date of Termination); provided further that the payments and benefits provided herein are subject to and conditioned upon the Executive executing a valid general release and waiver (in the form reasonably acceptable to the Company), waiving all claims the Executive may have against the Company, its successors, assigns, affiliates, executives, officers and directors, and such waiver becoming effective, and the payments and benefits are subject to and conditioned upon the Executive's compliance with the Restrictive Covenants provided in Sections 9 and 10 hereof. If the Company determines in good faith that the separation pay exception set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) does not apply as of the Date of Termination, the amount set forth above shall be paid (i) in an initial lump sum equal to six months' base salary (net of applicable taxes and withholdings) on the six-month anniversary of the Date of Termination and (ii) thereafter in installments in accordance with the Company's normal payroll practices."

2. Section 13(k) of the Agreement related to "Miscellaneous" and Internal Revenue Code Section 409A is hereby amended by replacing Section 13(k) in its entirety with the following with respect to Internal Revenue Code Section 409A:

"(k) (i) Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Executive's termination of employment which constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Internal Revenue Code ("Section 409A Regulations") shall be paid unless and until the Executive has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Executive is a "specified employee" within the meaning of the Section 409A Regulations as of the date of the Executive's separation from service, no amount that constitutes a deferral of compensation that is payable on account of the Executive's separation from service shall be paid to the Executive before the date ("Delayed Payment Date") which is the first day of the seventh month after the date of the Executive's separation from service or, if earlier, the date of the Executive's death following such separation from service. All such amounts that would, but for this subsection, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

(ii) The Company intends that income provided to Executive pursuant to this Agreement will not be subject to taxation under Section 409A of the Internal Revenue Code. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Internal Revenue Code and the Section 409A Regulations. However, the Company does not guarantee any particular tax

effect for income provided to Executive pursuant to this Agreement. In any event, except for the Company's responsibility to withhold applicable income and employment taxes from compensation paid or provided to the Executive, the Company shall not be responsible for the payment of any applicable taxes on compensation paid or provided to the Executive pursuant to this Agreement."

3. The provisions of this Amendment shall be effective as of the date written below ("Effective Date"), provided however, that the Agreement shall be operated in good faith compliance with Internal Revenue Code Section 409A for periods beginning January 1, 2005 through the Effective Date.

4. This Amendment shall amend only the provisions of the Agreement as set forth herein. Those provisions of the Agreement not expressly amended shall be considered in full force and effect.

IN WITNESS WHEREOF, the Company and Executive have caused this Amendment to be executed as of this 23rd day of April 2008.

COMPANY

ON Semiconductor Corporation

/s/ COLLEEN MCKEOWN

Name: Colleen McKeown

Title: Senior Vice President, Global Human Resources

EXECUTIVE

Keith Jackson, in that person's individual capacity

By: /s/ KEITH JACKSON

**AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT**

**WHEREAS**, Semiconductor Components Industries, LLC ("Company") and Donald Colvin ("Executive") entered into an Employment Agreement dated as of May 26, 2005 ("Agreement");

**WHEREAS**, all defined terms used herein shall have the meanings set forth in the Agreement unless specifically defined herein;

**WHEREAS**, the Agreement includes provisions pertaining to Section 409A of the Internal Revenue Code of 1986, as amended ("Internal Revenue Code") which relates to non-qualified deferred compensation arrangements;

**WHEREAS**, one of the Internal Revenue Code Section 409A provisions in the Agreement requires that certain separation from service payments to the Executive be delayed for six months;

**WHEREAS**, subsequent to the Executive entering into the Agreement with the Company the final regulations under Internal Revenue Code Section 409A were issued and such final regulations clarified various aspects regarding this tax matter;

**WHEREAS**, now that the final regulations under Internal Revenue Code Section 409A have been issued and as a result of these final regulations, the Company and Executive wish to amend the Agreement to, among other things, permit a distribution following the Executive's separation from service (i.e., without a six month delay in payment) as permitted pursuant to the "separation pay exception" set forth in Treasury Regulation Section 1.409A-1(b)(9) and to clarify certain other matters with respect to Internal Revenue Code Section 409A; and

**WHEREAS**, the Board of Directors of ON Semiconductor Corporation and its Compensation Committee have both reviewed and considered this matter and this Amendment No. 1 to the Agreement ("Amendment").

**NOW, THEREFORE**, for mutual consideration the receipt of which is hereby acknowledged, the Agreement is hereby amended as follows:

1. Section 5(a) of the Agreement related to "Termination Payments" and "Without Cause" is hereby amended by replacing the first sentence thereof with the following language, in order to, among other things, provide for the "separation pay exception" to Internal Revenue Code Section 409A:

*"(a) Without Cause.* In the event of the termination of the Executive's employment during the Employment Period by the Company without Cause (including a deemed termination without Cause as provided for in Section 3(f) (i.e., "Good Reason")), the Executive shall be entitled to: (i) any accrued but unused vacation, (ii) Base Salary through the Date of Termination (to the extent not theretofore paid), (iii) the continuation of Base Salary (as in effect immediately prior to the termination) for twelve (12) months

following the Date of Termination which, subject to the restriction set forth below, shall be paid in accordance with the Company's ordinary payroll practices in effect from time to time, (iv) any earned but not paid Bonus for the Performance Cycle immediately preceding the Date of Termination, and (v) a pro-rata portion of the Bonus, if any, for the Performance Cycle in which the Date of Termination occurs (based on the achievement of the applicable performance criteria and related to the applicable Performance Cycle as described in Section 2(b)). Notwithstanding the foregoing, the amount of payment set forth in (iii) above during the six-month period following the Date of Termination shall not exceed the severance pay exception limitation amount set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) (any amount subject to the separation pay exception limitation shall be paid in a lump sum on the six-month anniversary of the Date of Termination). If the Company determines in good faith that the separation pay exception set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) does not apply as of the Date of Termination, the amount set forth in (iii) above shall be paid (a) in an initial lump sum equal to six months' base salary (net of applicable taxes and withholdings) on the six-month anniversary of the Date of Termination and (b) thereafter in installments in accordance with the Company's ordinary payroll practices. The amounts set forth in (i) and (ii) above, shall be paid in accordance with applicable law on the Date of Termination. The amounts set forth in (iv) and (v) above shall be paid as soon as is reasonably practicable after the close of the accounting books and records of the Company for the relevant Performance Cycle at the same time bonuses are paid to other active employees, but in no event will payment be made for any Performance Cycle ending on December 31 before January 1 or after March 15 of the year following the year in which the Performance Cycle ends. If payment by such date is administratively impracticable, payment may be made at a later date as permitted under Treasury Regulation Section 1.409A-1(b)(4)(ii)."

2. Section 5(c) of the Agreement related to "Termination Payments" and "Change in Control" is hereby amended by replacing the first sentence thereof with the following language, in order to delete a proviso at the end of the first sentence related to Internal Revenue Code Section 409A which is no longer applicable:

*"(c) Change in Control.* If within twenty-four (24) months following a Change in Control (as defined herein), (i) the Company terminates the Executive's employment without Cause or (ii) the Executive terminates employment with the Company for Good Reason, then, in addition to all the other benefits provided to the Executive under Section 5(a) of this Agreement, notwithstanding any provision in any applicable option grant agreement between the Company and the Executive: (A) any outstanding but unvested options granted on or prior to the Effective Date shall vest upon the Date of Termination; and (B) all options (both vested and unvested) granted on or prior to the Effective Date will remain fully exercisable until the first to occur of (1) the one-year anniversary of the Date of Termination, and (2) the tenth anniversary of the grant date of such option."

3. Section 11 of the Agreement related to "Miscellaneous" shall be amended by adding the following language at the end of Section 11 as a new subsection (l) with respect to the Internal Revenue Code Section 409A:

“(1) (i) Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Executive’s termination of employment which constitutes a “deferral of compensation” within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Internal Revenue Code (“Section 409A Regulations”) shall be paid unless and until the Executive has incurred a “separation from service” within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Executive is a “specified employee” within the meaning of the Section 409A Regulations as of the date of the Executive’s separation from service, no amount that constitutes a deferral of compensation that is payable on account of the Executive’s separation from service shall be paid to the Executive before the date (“Delayed Payment Date”) which is the first day of the seventh month after the date of the Executive’s separation from service or, if earlier, the date of the Executive’s death following such separation from service. All such amounts that would, but for this subsection, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

(ii) The Company intends that income provided to Executive pursuant to this Agreement will not be subject to taxation under Section 409A of the Internal Revenue Code. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Internal Revenue Code and the Section 409A Regulations. However, the Company does not guarantee any particular tax effect for income provided to Executive pursuant to this Agreement. In any event, except for the Company’s responsibility to withhold applicable income and employment taxes from compensation paid or provided to the Executive, the Company shall not be responsible for the payment of any applicable taxes on compensation paid or provided to the Executive pursuant to this Agreement.”

4. The provisions of this Amendment shall be effective as of the date written below (“Effective Date”), provided however, that the Agreement shall be operated in good faith compliance with Internal Revenue Code Section 409A for periods beginning January 1, 2005 through the Effective Date.

5. This Amendment shall amend only the provisions of the Agreement as set forth herein. Those provisions of the Agreement not expressly amended shall be considered in full force and effect.

IN WITNESS WHEREOF, the Company and Executive have caused this Amendment to be executed as of this 23rd day of April 2008.

COMPANY

Semiconductor Components Industries, LLC

/s/ COLLEEN MCKEOWN

Name: Colleen McKeown

Title: Senior Vice President, Global Human Resources

EXECUTIVE

Donald Colvin, in that person's individual capacity

By: /s/ DONALD COLVIN

**AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT**

**WHEREAS**, Semiconductor Components Industries, LLC ("Company") and George H. Cave ("Executive") entered into an Employment Agreement dated as of May 26, 2005 ("Agreement");

**WHEREAS**, all defined terms used herein shall have the meanings set forth in the Agreement unless specifically defined herein;

**WHEREAS**, the Agreement includes provisions pertaining to Section 409A of the Internal Revenue Code of 1986, as amended ("Internal Revenue Code") which relates to non-qualified deferred compensation arrangements;

**WHEREAS**, one of the Internal Revenue Code Section 409A provisions in the Agreement requires that certain separation from service payments to the Executive be delayed for six months;

**WHEREAS**, subsequent to the Executive entering into the Agreement with the Company the final regulations under Internal Revenue Code Section 409A were issued and such final regulations clarified various aspects regarding this tax matter;

**WHEREAS**, now that the final regulations under Internal Revenue Code Section 409A have been issued and as a result of these final regulations, the Company and Executive wish to amend the Agreement to, among other things, permit a distribution following the Executive's separation from service (i.e., without a six month delay in payment) as permitted pursuant to the "separation pay exception" set forth in Treasury Regulation Section 1.409A-1(b)(9) and to clarify certain other matters with respect to Internal Revenue Code Section 409A; and

**WHEREAS**, the Board of Directors of ON Semiconductor Corporation and its Compensation Committee have both reviewed and considered this matter and this Amendment No. 1 to the Agreement ("Amendment").

**NOW, THEREFORE**, for mutual consideration the receipt of which is hereby acknowledged, the Agreement is hereby amended as follows:

1. Section 5(a) of the Agreement related to "Termination Payments" and "Without Cause" is hereby amended by replacing the first sentence thereof with the following language, in order to, among other things, provide for the "separation pay exception" to Internal Revenue Code Section 409A:

*"(a) Without Cause.* In the event of the termination of the Executive's employment during the Employment Period by the Company without Cause (including a deemed termination without Cause as provided for in Section 3(f) (i.e., "Good Reason")), the Executive shall be entitled to: (i) any accrued but unused vacation, (ii) Base Salary through the Date of Termination (to the extent not theretofore paid), (iii) the continuation of Base Salary (as in effect immediately prior to the termination) for twelve (12) months

following the Date of Termination which, subject to the restriction set forth below, shall be paid in accordance with the Company's ordinary payroll practices in effect from time to time, (iv) any earned but not paid Bonus for the Performance Cycle immediately preceding the Date of Termination, and (v) a pro-rata portion of the Bonus, if any, for the Performance Cycle in which the Date of Termination occurs (based on the achievement of the applicable performance criteria and related to the applicable Performance Cycle as described in Section 2(b)). Notwithstanding the foregoing, the amount of payment set forth in (iii) above during the six-month period following the Date of Termination shall not exceed the severance pay exception limitation amount set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) (any amount subject to the separation pay exception limitation shall be paid in a lump sum on the six-month anniversary of the Date of Termination). If the Company determines in good faith that the separation pay exception set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) does not apply as of the Date of Termination, the amount set forth in (iii) above shall be paid (a) in an initial lump sum equal to six months' base salary (net of applicable taxes and withholdings) on the six-month anniversary of the Date of Termination and (b) thereafter in installments in accordance with the Company's ordinary payroll practices. The amounts set forth in (i) and (ii) above, shall be paid in accordance with applicable law on the Date of Termination. The amounts set forth in (iv) and (v) above shall be paid as soon as is reasonably practicable after the close of the accounting books and records of the Company for the relevant Performance Cycle at the same time bonuses are paid to other active employees, but in no event will payment be made for any Performance Cycle ending on December 31 before January 1 or after March 15 of the year following the year in which the Performance Cycle ends. If payment by such date is administratively impracticable, payment may be made at a later date as permitted under Treasury Regulation Section 1.409A-1(b)(4)(ii)."

2. Section 5(c) of the Agreement related to "Termination Payments" and "Change in Control" is hereby amended by replacing the first sentence thereof with the following language, in order to delete a proviso at the end of the first sentence related to Internal Revenue Code Section 409A which is no longer applicable:

*"(c) Change in Control.* If within twenty-four (24) months following a Change in Control (as defined herein), (i) the Company terminates the Executive's employment without Cause or (ii) the Executive terminates employment with the Company for Good Reason, then, in addition to all the other benefits provided to the Executive under Section 5(a) of this Agreement, notwithstanding any provision in any applicable option grant agreement between the Company and the Executive: (A) any outstanding but unvested options granted on or prior to the Effective Date shall vest upon the Date of Termination; and (B) all options (both vested and unvested) granted on or prior to the Effective Date will remain fully exercisable until the first to occur of (1) the one-year anniversary of the Date of Termination, and (2) the tenth anniversary of the grant date of such option."

3. Section 11 of the Agreement related to "Miscellaneous" shall be amended by adding the following language at the end of Section 11 as a new subsection (l) with respect to the Internal Revenue Code Section 409A:



“(1) (i) Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Executive’s termination of employment which constitutes a “deferral of compensation” within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Internal Revenue Code (“Section 409A Regulations”) shall be paid unless and until the Executive has incurred a “separation from service” within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Executive is a “specified employee” within the meaning of the Section 409A Regulations as of the date of the Executive’s separation from service, no amount that constitutes a deferral of compensation that is payable on account of the Executive’s separation from service shall be paid to the Executive before the date (“Delayed Payment Date”) which is the first day of the seventh month after the date of the Executive’s separation from service or, if earlier, the date of the Executive’s death following such separation from service. All such amounts that would, but for this subsection, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

(ii) The Company intends that income provided to Executive pursuant to this Agreement will not be subject to taxation under Section 409A of the Internal Revenue Code. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Internal Revenue Code and the Section 409A Regulations. However, the Company does not guarantee any particular tax effect for income provided to Executive pursuant to this Agreement. In any event, except for the Company’s responsibility to withhold applicable income and employment taxes from compensation paid or provided to the Executive, the Company shall not be responsible for the payment of any applicable taxes on compensation paid or provided to the Executive pursuant to this Agreement.”

4. The provisions of this Amendment shall be effective as of the date written below (“Effective Date”), provided however, that the Agreement shall be operated in good faith compliance with Internal Revenue Code Section 409A for periods beginning January 1, 2005 through the Effective Date.

5. This Amendment shall amend only the provisions of the Agreement as set forth herein. Those provisions of the Agreement not expressly amended shall be considered in full force and effect.

IN WITNESS WHEREOF, the Company and Executive have caused this Amendment to be executed as of this 23rd day of April 2008.

COMPANY

Semiconductor Components Industries, LLC

/s/ COLLEEN MCKEOWN

Name: Colleen McKeown

Title: Senior Vice President, Global Human Resources

EXECUTIVE

George H. Cave, in that person's individual capacity

By: /s/ GEORGE H. CAVE

**AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT**

**WHEREAS**, Semiconductor Components Industries, LLC ("Company") and Robert Charles "Bob" Mahoney ("Executive") entered into an Employment Agreement dated as of July 11, 2006 ("Agreement");

**WHEREAS**, all defined terms used herein shall have the meanings set forth in the Agreement unless specifically defined herein;

**WHEREAS**, the Agreement includes provisions pertaining to Section 409A of the Internal Revenue Code of 1986, as amended ("Internal Revenue Code") which relates to non-qualified deferred compensation arrangements;

**WHEREAS**, one of the Internal Revenue Code Section 409A provisions in the Agreement requires that certain separation from service payments to the Executive be delayed for six months;

**WHEREAS**, subsequent to the Executive entering into the Agreement with the Company the final regulations under Internal Revenue Code Section 409A were issued and such final regulations clarified various aspects regarding this tax matter;

**WHEREAS**, now that the final regulations under Internal Revenue Code Section 409A have been issued and as a result of these final regulations, the Company and Executive wish to amend the Agreement to, among other things, permit a distribution following the Executive's separation from service (i.e., without a six month delay in payment) as permitted pursuant to the "separation pay exception" set forth in Treasury Regulation Section 1.409A-1(b)(9) and to clarify certain other matters with respect to Internal Revenue Code Section 409A; and

**WHEREAS**, the Board of Directors of ON Semiconductor Corporation and its Compensation Committee have both reviewed and considered this matter and this Amendment No. 2 to the Agreement ("Amendment").

**NOW, THEREFORE**, for mutual consideration the receipt of which is hereby acknowledged, the Agreement is hereby amended as follows:

1. Section 5(a) of the Agreement related to "Termination Payments" and "Without Cause" is hereby amended by replacing the first sentence thereof with the following language, in order to, among other things, provide for the "separation pay exception" to Internal Revenue Code Section 409A:

“(a) *Without Cause*. In the event of the termination of the Executive’s employment during the Employment Period by the Company without Cause (including a deemed termination without Cause as provided for in Section 3(f) (i.e., “Good Reason”)), the Executive shall be entitled to: (i) any accrued but unused vacation, (ii) Base Salary through the Date of Termination (to the extent not theretofore paid), (iii) the continuation of Base Salary (as in effect immediately prior to the termination) for twelve (12) months following the Date of Termination which, subject to the restriction set forth below, shall be paid in accordance with the Company’s ordinary payroll practices in effect from time to time, (iv) any earned but not paid Bonus for the Performance Cycle immediately preceding the Date of Termination, and (v) a pro-rata portion of the Bonus, if any, for the Performance Cycle in which the Date of Termination occurs (based on the achievement of the applicable performance criteria and related to the applicable Performance Cycle as described in Section 2(b)). Notwithstanding the foregoing, the amount of payment set forth in (iii) above during the six-month period following the Date of Termination shall not exceed the severance pay exception limitation amount set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) (any amount subject to the separation pay exception limitation shall be paid in a lump sum on the six-month anniversary of the Date of Termination). If the Company determines in good faith that the separation pay exception set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) does not apply as of the Date of Termination, the amount set forth in (iii) above shall be paid (a) in an initial lump sum equal to six months’ base salary (net of applicable taxes and withholdings) on the six-month anniversary of the Date of Termination and (b) thereafter in installments in accordance with the Company’s ordinary payroll practices. The amounts set forth in (i) and (ii) above, shall be paid in accordance with applicable law on the Date of Termination. The amounts set forth in (iv) and (v) above shall be paid as soon as is reasonably practicable after the close of the accounting books and records of the Company for the relevant Performance Cycle at the same time bonuses are paid to other active employees, but in no event will payment be made for any Performance Cycle ending on December 31 before January 1 or after March 15 of the year following the year in which the Performance Cycle ends. If payment by such date is administratively impracticable, payment may be made at a later date as permitted under Treasury Regulation Section 1.409A-1(b)(4)(ii).”

2. Section 5(c) of the Agreement related to “Termination Payments” and “Change in Control” is hereby amended by replacing the first sentence thereof with the following language, in order to delete a proviso at the end of the first sentence related to Internal Revenue Code Section 409A which is no longer applicable:

“(c) *Change in Control*. If within twenty-four (24) months following a Change in Control (as defined below) (i) the Company terminates the Executive’s employment without Cause or (ii) the Executive terminates his employment with the Company for Good Reason, then, in addition to all the other benefits provided to the Executive under Section 5(a) of this Agreement, notwithstanding any provision in any applicable option grant agreement between the Company and the Executive: (i) any outstanding but unvested options granted on or prior to the Effective Date shall vest upon the Date of

Termination; and (ii) all options (both vested and unvested) granted on or prior to the Effective Date will remain fully exercisable until the first to occur of (1) the one-year anniversary of the Date of Termination, and (2) the tenth anniversary of the grant date of such option.”

3. Section 11 of the Agreement related to “Miscellaneous” shall be amended by adding the following language at the end of Section 11 as a new subsection (l) with respect to the Internal Revenue Code Section 409A:

“(l) (i) Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Executive’s termination of employment which constitutes a “deferral of compensation” within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Internal Revenue Code (“Section 409A Regulations”) shall be paid unless and until the Executive has incurred a “separation from service” within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Executive is a “specified employee” within the meaning of the Section 409A Regulations as of the date of the Executive’s separation from service, no amount that constitutes a deferral of compensation that is payable on account of the Executive’s separation from service shall be paid to the Executive before the date (“Delayed Payment Date”) which is the first day of the seventh month after the date of the Executive’s separation from service or, if earlier, the date of the Executive’s death following such separation from service. All such amounts that would, but for this subsection, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

(ii) The Company intends that income provided to Executive pursuant to this Agreement will not be subject to taxation under Section 409A of the Internal Revenue Code. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Internal Revenue Code and the Section 409A Regulations. However, the Company does not guarantee any particular tax effect for income provided to Executive pursuant to this Agreement. In any event, except for the Company’s responsibility to withhold applicable income and employment taxes from compensation paid or provided to the Executive, the Company shall not be responsible for the payment of any applicable taxes on compensation paid or provided to the Executive pursuant to this Agreement.”

4. The provisions of this Amendment shall be effective as of the date written below (“Effective Date”), provided however, that the Agreement shall be operated in good faith compliance with Internal Revenue Code Section 409A for periods beginning January 1, 2005 through the Effective Date.

5. This Amendment shall amend only the provisions of the Agreement as set forth herein. Those provisions of the Agreement not expressly amended shall be considered in full force and effect.

IN WITNESS WHEREOF, the Company and Executive have caused this Amendment to be executed as of this 29th day of April 2008.

COMPANY

Semiconductor Components Industries, LLC

/s/ COLLEEN MCKEOWN

Name: Colleen McKeown

Title: Senior Vice President, Global Human Resources

EXECUTIVE

Robert Charles "Bob" Mahoney, in that person's individual capacity

By: /s/ ROBERT CHARLES MAHONEY

**AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT**

**WHEREAS**, Semiconductor Components Industries, LLC ("Company") and John Nelson ("Executive") entered into an Employment Agreement dates as of May 1, 2007 ("Agreement");

**WHEREAS**, all defined terms used herein shall have the meanings set forth in the Agreement unless specifically defined herein;

**WHEREAS**, the Agreement includes provisions pertaining to Section 409A of the Internal Revenue Code of 1986, as amended ("Internal Revenue Code") which relates to non-qualified deferred compensation arrangements;

**WHEREAS**, one of the Internal Revenue Code Section 409A provisions in the Agreement requires that certain separation from service payments to the Executive be delayed for six months;

**WHEREAS**, subsequent to the Executive entering into the Agreement with the Company the final regulations under Internal Revenue Code Section 409A were issued and such final regulations clarified various aspects regarding this tax matter;

**WHEREAS**, now that the final regulations under Internal Revenue Code Section 409A have been issued and as a result of these final regulations, the Company and Executive wish to amend the Agreement to, among other things, permit a distribution following the Executive's separation from service (i.e., without a six month delay in payment) as permitted pursuant to the "separation pay exception" set forth in Treasury Regulation Section 1.409A-1(b)(9) and to clarify certain other matters with respect to Internal Revenue Code Section 409A; and

**WHEREAS**, the Board of Directors of ON Semiconductor Corporation and its Compensation Committee have both reviewed and considered this matter and this Amendment No. 1 to the Agreement ("Amendment").

**NOW, THEREFORE**, for mutual consideration the receipt of which is hereby acknowledged, the Agreement is hereby amended as follows:

1. Section 5(a) of the Agreement related to "Termination Payments" and "Without Cause" is hereby amended by replacing the first sentence thereof with the following language, in order to, among other things, provide for the "separation pay exception" to Internal Revenue Code Section 409A:

*"(a) Without Cause.* In the event of the termination of the Executive's employment during the Employment Period by the Company without Cause (including a deemed termination without Cause as provided for in Section 3(f) (i.e., "Good Reason")), the Executive shall be entitled to: (i) any accrued but unused vacation, (ii) Base Salary through the Date of Termination (to the extent not theretofore paid), (iii) the continuation of Base Salary (as in effect immediately prior to the termination) for twelve (12) months

following the Date of Termination which, subject to the restriction set forth below, shall be paid in accordance with the Company's ordinary payroll practices in effect from time to time, (iv) any earned but not paid Bonus for the Performance Cycle immediately preceding the Date of Termination, and (v) a pro-rata portion of the Bonus, if any, for the Performance Cycle in which the Date of Termination occurs (based on the achievement of the applicable performance criteria and related to the applicable Performance Cycle as described in Section 2(b)). Notwithstanding the foregoing, the amount of payment set forth in (iii) above during the six-month period following the Date of Termination shall not exceed the severance pay exception limitation amount set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) (any amount subject to the separation pay exception limitation shall be paid in a lump sum on the six-month anniversary of the Date of Termination). If the Company determines in good faith that the separation pay exception set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) does not apply as of the Date of Termination, the amount set forth in (iii) above shall be paid (a) in an initial lump sum equal to six months' base salary (net of applicable taxes and withholdings) on the six-month anniversary of the Date of Termination and (b) thereafter in installments in accordance with the Company's ordinary payroll practices. The amounts set forth in (i) and (ii) above, shall be paid in accordance with applicable law on the Date of Termination. The amounts set forth in (iv) and (v) above shall be paid as soon as is reasonably practicable after the close of the accounting books and records of the Company for the relevant Performance Cycle at the same time bonuses are paid to other active employees, but in no event will payment be made for any Performance Cycle ending on December 31 before January 1 or after March 15 of the year following the year in which the Performance Cycle ends. If payment by such date is administratively impracticable, payment may be made at a later date as permitted under Treasury Regulation Section 1.409A-1(b)(4)(ii)."

2. Section 5(c) of the Agreement related to "Termination Payments" and "Change in Control" is hereby amended by replacing the first sentence thereof with the following language, in order to delete a proviso at the end of the first sentence related to Internal Revenue Code Section 409A which is no longer applicable:

*"(c) Change in Control.* If within twenty-four (24) months following a Change in Control (as defined herein), (i) the Company terminates the Executive's employment without Cause or (ii) the Executive terminates employment with the Company for Good Reason, then, in addition to all the other benefits provided to the Executive under Section 5(a) of this Agreement, notwithstanding any provision in any applicable option grant agreement between the Company and the Executive: (A) any outstanding but unvested options granted on or prior to the Effective Date shall vest upon the Date of Termination; and (B) all options (both vested and unvested) granted on or prior to the Effective Date will remain fully exercisable until the first to occur of (1) the one-year anniversary of the Date of Termination, and (2) the tenth anniversary of the grant date of such option."

3. Section 11(i) of the Agreement related to "Miscellaneous" and Internal Revenue Code Section 409A shall be amended and restated in its entirety as follows:



“(i) Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Executive’s termination of employment which constitutes a “deferral of compensation” within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Internal Revenue Code (“Section 409A Regulations”) shall be paid unless and until the Executive has incurred a “separation from service” within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Executive is a “specified employee” within the meaning of the Section 409A Regulations as of the date of the Executive’s separation from service, no amount that constitutes a deferral of compensation that is payable on account of the Executive’s separation from service shall be paid to the Executive before the date (“Delayed Payment Date”) which is the first day of the seventh month after the date of the Executive’s separation from service or, if earlier, the date of the Executive’s death following such separation from service. All such amounts that would, but for this subsection, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

(ii) The Company intends that income provided to Executive pursuant to this Agreement will not be subject to taxation under Section 409A of the Internal Revenue Code. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Internal Revenue Code and the Section 409A Regulations. However, the Company does not guarantee any particular tax effect for income provided to Executive pursuant to this Agreement. In any event, except for the Company’s responsibility to withhold applicable income and employment taxes from compensation paid or provided to the Executive, the Company shall not be responsible for the payment of any applicable taxes on compensation paid or provided to the Executive pursuant to this Agreement.”

4. The provisions of this Amendment shall be effective as of the date written below (“Effective Date”), provided however, that the Agreement shall be operated in good faith compliance with Internal Revenue Code Section 409A for periods beginning January 1, 2005 through the Effective Date.

5. This Amendment shall amend only the provisions of the Agreement as set forth herein. Those provisions of the Agreement not expressly amended shall be considered in full force and effect.

IN WITNESS WHEREOF, the Company and Executive have caused this Amendment to be executed as of this 23rd day of April 2008.

COMPANY

Semiconductor Components Industries, LLC

/s/ COLLEEN MCKEOWN

Name: Colleen McKeown

Title: Senior Vice President, Global Human Resources

EXECUTIVE

John Nelson, in that person's individual capacity

By: /s/ W. JOHN NELSON

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Keith D. Jackson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ON Semiconductor Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of a report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2008

/s/ KEITH D. JACKSON

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Keith D. Jackson  
Chief Executive Officer

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald A. Colvin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ON Semiconductor Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of a report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2008

/s/ DONALD A. COLVIN

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Donald A. Colvin  
Chief Financial Officer

**Certification****Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of ON Semiconductor Corporation, a Delaware corporation ("Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2008 ("Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 5, 2008

/s/ KEITH D. JACKSON

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**Keith D. Jackson**  
**President and Chief Executive Officer**

Dated: August 5, 2008

/s/ DONALD A. COLVIN

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**Donald A. Colvin**  
**Executive Vice President and**  
**Chief Financial Officer**

(A signed original of this written statement required by Section 906 has been provided to ON Semiconductor Corporation and will be retained by ON Semiconductor Corporation and furnished to the Securities and Exchange Commission or its staff upon request.)