SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

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

ON SEMICONDUCTOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-3840979**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5005 E. McDowell Road
Phoenix, AZ 85008
(602) 244-6600
(Address and telephone number of principal executive offices)

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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 each of the issuer's classes of common stock as of the close of business on July 21, 2006:

Class	Number of Shares
Common Stock; $.01 par value	324,816,469

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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 30, 2006	December 31, 2005
Assets		
Cash and cash equivalents	$ 294.7	$ 233.3
Receivables, net	200.5	160.2
Inventories, net	195.1	169.5
Other current assets	38.5	29.9
Deferred income taxes	5.8	7.4
Total current assets	734.6	600.3
Property, plant and equipment, net	567.4	438.5
Deferred income taxes	0.7	—
Goodwill	77.3	77.3
Intangible assets, net	11.6	—
Other assets	31.4	32.4
Total assets	$ 1,423.0	$ 1,148.5
Liabilities, Minority Interests and Stockholders' Deficit		
Accounts payable	$ 146.3	$ 137.3
Accrued expenses	124.5	83.9
Income taxes payable	6.4	5.5
Accrued interest	0.5	0.6
Deferred income on sales to distributors	126.9	97.1
Current portion of long-term debt	51.2	73.9
Total current liabilities	455.8	398.3
Long-term debt	1,009.8	993.1
Other long-term liabilities	32.2	31.4
Deferred income taxes	—	1.2
Total liabilities	1,497.8	1,424.0
Commitments and contingencies (See Note 12)		
Minority interests in consolidated subsidiaries	25.2	24.8
Common stock ($0.01 par value, 600,000,000 and 500,000,000 shares authorized, 324,756,767 and 310,637,499 shares issued and outstanding)	3.2	3.1
Additional paid-in capital	1,342.1	1,252.7
Accumulated other comprehensive income	3.6	0.7
Accumulated deficit	(1,448.9)	(1,556.8)
Total stockholders' deficit	(100.0)	(300.3)
Total liabilities, minority interests and stockholders' deficit	$ 1,423.0	$ 1,148.5

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)

	Quarter Ended		Six Months Ended	
	June 30, 2006	July 1, 2005	June 30, 2006	July 1, 2005
Revenues	$ 375.3	$ 302.8	$ 709.3	$ 605.2
Cost of revenues	222.1	204.3	438.4	410.5
Gross profit	153.2	98.5	270.9	194.7
Operating expenses:				
Research and development	25.2	23.0	48.8	46.1
Selling and marketing	22.7	18.9	43.7	38.2
General and administrative	21.3	17.5	41.5	37.9
Restructuring, asset impairments and other, net	3.3	2.8	3.3	3.9
Total operating expenses	72.5	62.2	137.3	126.1
Operating income	80.7	36.3	133.6	68.6
Other income (expenses), net:				
Interest expense	(13.1)	(15.4)	(26.1)	(30.0)
Interest income	2.8	1.2	4.8	2.1
Other	(0.2)	(0.6)	0.8	(1.6)
Other income (expenses), net	(10.5)	(14.8)	(20.5)	(29.5)
Income before income taxes and minority interests	70.2	21.5	113.1	39.1
Income tax provision	(1.8)	(2.0)	(3.8)	(3.8)
Minority interests	(0.9)	(1.0)	(1.4)	(2.0)
Net income	67.5	18.5	107.9	33.3
Less: Accretion to redemption value of convertible redeemable preferred stock	—	0.1	—	0.2
Less: Convertible redeemable preferred stock dividends	—	(2.6)	—	(5.2)
Less: Allocation of undistributed earnings to preferred stockholders	—	(2.5)	—	(4.4)
Net income applicable to common stock	$ 67.5	$ 13.5	$ 107.9	$ 23.9
Comprehensive income:				
Net income	$ 67.5	$ 18.5	$ 107.9	$ 33.3
Foreign currency translation adjustments	0.1	(0.8)	1.2	(1.5)
Effects of cash flows hedges	0.3	(1.6)	1.7	2.0
Unrealized losses on deferred compensation plan investments	—	(0.2)	—	(0.4)
Comprehensive income:	$ 67.9	$ 15.9	$ 110.8	$ 33.4
Income per common share:				
Basic:	$ 0.21	$ 0.05	$ 0.34	$ 0.09
Diluted:	$ 0.19	$ 0.05	$ 0.31	$ 0.09
Weighted average common shares outstanding:				
Basic	322.8	255.3	317.3	255.2
Diluted	355.7	287.8	350.8	287.8

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)
(unaudited)

	Quarter Ended		Six Months Ended	
	June 30, 2006	July 1, 2005	June 30, 2006	July 1, 2005
Cash flows from operating activities:				
Net income	$ 67.5	$ 18.5	$ 107.9	$ 33.3
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	17.2	24.8	40.7	49.9
(Gain) loss on sale of fixed assets	(0.2)	0.5	(0.2)	—
Amortization of debt issuance costs	0.7	0.4	1.3	0.9
Provision for excess inventories	6.6	3.1	9.1	6.2
Non-cash impairment of property, plant and equipment	4.7	—	4.7	—
Non-cash interest on junior subordinated note payable	—	3.9	—	7.8
Non-cash stock compensation expense	2.4	—	4.3	—
Deferred income taxes	(0.5)	(2.4)	(0.1)	(4.6)
Other	0.8	1.2	(0.2)	1.9
Changes in assets and liabilities:				
Receivables	(22.4)	10.8	(40.5)	(9.4)
Inventories	(26.6)	0.6	(34.7)	15.1
Other assets	(1.1)	(6.3)	(10.2)	(3.2)
Accounts payable	(0.3)	10.1	(5.2)	(3.2)
Accrued expenses	17.7	(1.7)	24.2	4.2
Income taxes payable	1.9	2.3	0.9	4.0
Accrued interest	(0.8)	0.1	(0.1)	(0.7)
Deferred income on sales to distributors	13.7	(5.7)	29.8	(5.5)
Other long-term liabilities	(0.1)	1.8	—	1.5
Net cash provided by operating activities	81.2	62.0	131.7	98.2
Cash flows from investing activities:				
Purchases of property, plant and equipment	(103.4)	(13.0)	(135.1)	(22.0)
Deposits utilized for purchases of property, plant and equipment	1.9	—	0.3	—
Proceeds from sales of property, plant and equipment	0.9	0.1	1.1	0.8
Purchases of intangible assets	(11.9)	—	(11.9)	—
Purchases of held-to-maturity securities	—	—	—	(2.1)
Purchases of available-for-sale securities	—	—	—	(16.1)
Proceeds from sales of held-to-maturity securities	—	15.8	—	24.1
Proceeds from sales of available-for-sale securities	—	—	2.3	63.9
Net cash provided by (used in) investing activities	(112.5)	2.9	(143.3)	48.6
Cash flows from financing activities:				
Proceeds from issuance of common stock under the employee stock purchase plan	0.6	0.4	1.1	0.9
Proceeds from stock option exercises	3.7	0.5	8.9	1.0
Proceeds from issuance of common stock, net of issuance costs	76.4	—	76.4	—
Payment of capital lease obligations	(2.2)	(1.3)	(3.9)	(3.1)
Payment of debt issuance and amendment costs	(0.3)	—	(1.7)	(0.2)
Dividend to minority shareholder of consolidated subsidiary	(1.0)	(0.5)	(1.0)	(2.0)
Repayment of long-term debt	(2.8)	(5.8)	(7.4)	(13.4)
Net cash provided by (used in) financing activities	74.4	(6.7)	72.4	(16.8)
Effect of exchange rate changes on cash and cash equivalents	0.3	(0.1)	0.6	(0.1)
Net increase in cash and cash equivalents	43.4	58.1	61.4	129.9
Cash and cash equivalents, beginning of period	251.3	177.5	233.3	105.7
Cash and cash equivalents, end of period	$ 294.7	$235.6	$ 294.7	$235.6

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 and data management semiconductors and standard semiconductor components. 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’s affiliates 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.

The accompanying unaudited financial statements as of June 30, 2006, and for the three months and six months ended June 30, 2006 and July 1, 2005, 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, 2005 and for the year then ended included in the Company’s annual report on Form 10-K for the year ended December 31, 2005.

Note 2: Liquidity

During the six months ended June 30, 2006, the Company reported net income of $107.9 million compared to $33.3 million for the six months ended July 1, 2005. The Company’s net income included charges of $3.3 million from restructuring, asset impairments and other, net for the six months ended June 30, 2006 as compared to a net charge of $3.9 million for the six months ended July 1, 2005. Net cash provided by operating activities was $131.7 million for the six months ended June 30, 2006, as compared to $98.2 million for the six months ended July 1, 2005.

At June 30, 2006, the Company had $294.7 million in cash and cash equivalents, net working capital of $278.8 million, term and revolving debt of $1,061.0 million in the aggregate and a stockholders’ deficit of $100.0 million. The Company’s long-term debt includes $635.7 million under its senior bank facilities; $260.0 million of its zero coupon convertible senior subordinated notes due 2024; $95.0 million under a 1.875% senior subordinated note due 2025; $32.0 million under a loan facility with a Chinese bank due 2006 through 2013; $14.2 million under a note payable to a Japanese bank due 2006 through 2010; $14.0 million under a loan facility with a Chinese bank due 2006 through 2007; and $10.1 million of capital lease obligations. The Company was in compliance with all of the covenants contained in its various debt agreements as of June 30, 2006 and expects to remain in compliance over the next twelve months.

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

If the Company fails to generate sufficient cash from operations, it may need to sell additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be on terms acceptable to the Company. Management believes that cash flows from operating activities coupled with existing cash balances will be adequate to fund the Company's operating and capital needs through June 30, 2007. To the extent that results or events differ from the Company's financial projections or business plans, its liquidity may be adversely affected.

Note 3: 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 are accounted for on the cost basis. All intercompany accounts and transactions have been eliminated.

In the second quarter of 2003, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, as amended December 2003 ("FIN No. 46"). FIN No. 46 requires that certain variable interest entities ("VIE's") be consolidated by the primary beneficiary, as that term is defined in FIN No. 46. The Company determined that its investment in Leshan-Phoenix Semiconductor Company Limited ("Leshan") meets the definition of a VIE and that the Company is the primary beneficiary; therefore, the investment in Leshan should be consolidated under FIN No. 46. The Company had previously accounted for its investment in Leshan using the equity method.

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, restructuring charges, tax reserves and pension obligations; 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.

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

The Company provides unsecured credit terms to its customers in the normal course of business. 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.

Approximately 16% and 17% of the Company's revenues for the quarter and six months ended June 30, 2006, respectively, are attributable to its various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation ("Delphi"), one of the Company's automotive customers, and certain of Delphi's U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the quarter and six months ended June 30, 2006, the Company's revenues from Delphi accounted for less than 3% of its total revenues and approximately $5.4 million of its receivables due from Delphi as of June 30, 2006 are subject to collection pending resolution of the reorganization proceedings.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis), or market. The Company records provisions for slow moving inventories based upon a regular analysis of inventory on hand compared to projected end user demand. Projected end user demand is generally based on sales during the prior twelve months. These provisions can influence results from operations. For example, when demand for a given part falls, all or a portion of the related inventory is reserved, impacting cost of sales and gross profit. If demand recovers and the parts previously reserved are sold, a higher than normal margin will generally be recognized. General market conditions as well as the Company's design activities can cause certain of its products to become obsolete.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated over estimated useful lives of 30-50 years for buildings and 3-20 years for machinery and equipment using accelerated and straight-line methods. During periods prior to the second quarter of 2006, a majority of the machinery and equipment was depreciated on a straight-line basis over a useful life of 5 years. During the second quarter of 2006, the Company changed the estimated useful life for a majority of its machinery and equipment currently in use from 5 years to 10 years. See *Note 4: Change in Accounting Estimate* for further discussion. Expenditures for maintenance and repairs are charged to operations in the year in which the expense is incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized.

The Company evaluates the recoverability of the carrying amount of its property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Impairment is assessed when the undiscounted expected cash flows derived 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.

In 2005, management committed to a plan to sell approximately 42 acres of land and three buildings located at its corporate headquarters in Phoenix, Arizona, as well as one of its two buildings at its East Greenwich, Rhode Island facility. The remainder of the Phoenix site will continue to function as the Company's corporate headquarters as well as a manufacturing, design center and research and development facility. The remaining building in Rhode Island will continue to function as a design center and research and development facility. The property and buildings are currently being marketed for sale with a list price of between $24 million and $27 million. The net book value of the land and buildings of $3.0 million has been classified as held for sale and included in other current assets as of December 31, 2005 and June 30, 2006.

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). When the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142") the net carrying value of the Cherry Goodwill was $77.3 million, which included $18.4 million of accumulated amortization. Under SFAS No. 142, goodwill is evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The Company performs its annual impairment analysis as of the first day of the fourth quarter of each year.

Intangible Assets

Intangible assets consist of values assigned to intellectual property and assembled workforce resulting from the May 2006 purchase by SCI LLC of LSI Logic Corporation's ("LSI") Gresham, Oregon wafer fabrication facility (see *Note 6: Asset Acquisition* for further discussion). These are stated at cost less accumulated amortization and are amortized over their economic useful life of 5 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 30, 2006 (in millions):

	As of June 30, 2006			
	Original Cost	Accumulated Amortization	Carrying Value	Useful Life (in Years)
Intellectual Property	$ 5.2	$ (0.1)	$ 5.1	5
Assembled Workforce	6.7	(0.2)	6.5	5
Total intangibles	$ 11.9	$ (0.3)	$ 11.6	

Amortization expense for intangible assets amounted to $0.3 million for the quarter ended June 30, 2006, and is expected to be as follows over the next five years (in millions).

	Intellectual Property	Assembled Workforce
Remainder of 2006	$ 0.6	$ 0.7
2007	1.0	1.3
2008	1.0	1.3
2009	1.0	1.3
2010	1.0	1.3
2011	0.5	0.6
Total estimated amortization expense	$ 5.1	$ 6.5

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 $11.3 million and $11.4 million at June 30, 2006 and December 31, 2005, 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 recognizes revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the end customer net of provisions for related sales returns and allowances. Title to products sold to distributors typically passes at the time of shipment by the Company so the Company records accounts receivable for the amount of the transaction, reduces its inventory for the products shipped and defers the related margin in the consolidated balance sheet. The Company recognizes the related revenue and margin when the distributor informs the Company that it has resold the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days. 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

In December 2004, the Financial Accounting Standards Board (“FASB”) revised Statement of Financial Accounting Standards No. 123 (“SFAS No. 123R”), “Share-Based Payment,” which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. On April 14, 2005, the U.S. Securities and Exchange Commission adopted a new rule amending the effective dates for SFAS 123R. In accordance with the new rule, the Company adopted SFAS No. 123R on January 1, 2006.

Under SFAS 123R, 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 30, 2006, the Company had no unvested awards with market or performance conditions. The Company adopted the provisions of SFAS No. 123R on January 1, 2006, the first day of the Company's fiscal year 2006, using a modified prospective application, which provides for certain changes to the method for recognizing share-based compensation. Under the modified prospective application, prior periods are not revised for comparative purposes. The provisions of SFAS No. 123R apply to new awards and to awards that are outstanding with future service periods on the effective date. Estimated compensation expense for awards outstanding with future service periods at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123").

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 are considered. If all or a portion of the remaining deferred tax assets will not be realized, the valuation allowance will be increased with a charge to income tax expense. Conversely, if the Company will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense.

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 collectibility 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.

Foreign Currencies

Most of the Company's 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 in foreign currencies that are receivable or payable in cash are translated at current exchange rates while inventories and other non-monetary assets 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 deficit.

Defined Benefit Plans

The Company maintains pension plans covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increases for plan employees. All of these assumptions are based upon management's judgment and consultation with an actuary, 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 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 30, 2006 was 6.2%. 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" ("FIN 47") effective December 31, 2005. As a result of the adoption of FIN 47, the Company recorded a $2.9 million net charge for the cumulative effect of accounting change in the fourth quarter of 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 estimable.

Note 4: Change in Accounting Estimate

During the quarter ended June 30, 2006, the Company commissioned a study of the manufacturing equipment at its worldwide locations, which included an assessment of the estimated useful lives of those assets. The results of the study supported an estimated useful life of 10 years. Management, factoring in the results of this study, have revised the estimated useful lives of its manufacturing equipment for depreciation purposes to 10 years as of the beginning of the second quarter of 2006 and on a prospective basis. The effect of this change was to decrease depreciation expense by $7.5 million, increase net income by $7.5 million and increase both basic and diluted net income per share by $0.02 for the quarter and six months ended June 30, 2006.

Note 5: Subsequent Events

In June 2006, the Company commenced an offer to exchange all of its then outstanding $260.0 million principal amount of zero coupon convertible senior subordinated notes due 2024 for a like principal amount of the new notes plus an exchange fee of $2.50 per $1,000 principal amount of their old notes validly tendered and accepted for exchange. The new notes contain a net share settlement feature, which will reduce the amount of shares included in diluted net income per share beginning in the third quarter of 2006. On July 21, 2006, the

Company issued $259.5 million aggregate principal amount of new notes that are convertible into cash up to the par value, at a conversion rate of 101.8849 shares per $1,000 principle under certain circumstances. The excess of fair value over par value is convertible into stock. The exchange expired on July 19, 2006, and 99.8% of the aggregate principal amount of the old notes were tendered and subsequently exchanged.

Note 6: Asset Acquisition

On May 15, 2006, SCI LLC purchased LSI's Gresham, Oregon wafer fabrication facility, including real property, tangible personal property, certain intangible assets, other specified manufacturing equipment and related information. The assets that were purchased included an approximately 83 acre campus with an estimated 500,000 square feet of building space of which approximately 98,000 square feet is clean room. SCI LLC also offered employment to substantially all of LSI's manufacturing employees working at the Gresham facility at the time of the purchase. At the closing of the transaction, SCI LLC also entered into several ancillary agreements including, but not limited to, a wafer supply and test agreement, intellectual property license agreement, transition services agreement and facility use agreement.

The aggregate purchase price for the acquired assets was $106.5 million, which includes approximately $1.5 million in legal, accounting and appraisal fees related to the transaction. In addition, approximately $1.1 million of certain net assets and liabilities were assumed by SCI LLC when the purchase was finalized on May 15, 2006. The purchase price of $106.5 million was allocated to the assets purchased based on their relative fair values as follows (in millions):

Property, plant and equipment, net:	
Land	$ 12.9
Buildings	10.5
Machinery and equipment	71.2
Total property, plant and equipment, net	94.6
Intangible Assets:	
Intellectual property	5.2
Assembled workforce	6.7
Total intangible assets	11.9
Total long-term assets acquired	106.5
Net assets and liabilities assumed	1.1
Total	$107.6

The Company paid LSI a deposit of $10.5 million in April 2006, and also paid $80.6 million at the closing of the transaction on May 15, 2006. SCI LLC is obligated to pay the remaining balance of $15.0 million by August 13, 2006.

To finance a portion of the purchase, the Company completed a public offering on April 6, 2006, of common stock registered pursuant to a shelf registration statement originally filed with the Securities and Exchange Commission on January 2, 2004. In connection with this offering, the Company issued approximately 11.2 million shares (which includes 0.7 million shares issued as over-allotments) of its common stock at a price of $7.00 per share. The net proceeds from this offering received by the Company were $75.2 million after deducting the underwriting discount of $1.6 million ($0.14 per share) and offering expenses of $1.3 million. See *Note 10: Common Stock* for further discussion.

Note 7: Restructuring, Asset Impairments and Other, net

The activity related to the Company's restructuring, asset impairments and other, net for programs began in 2006 or that were not completed by December 31, 2005, is as follows (in millions):

Restructuring

June 2005 Restructuring Program

Cumulative charges of $3.4 million offset by adjustments of $1.3 million have been incurred through June 30, 2006, related to the June 2005 restructuring program. In June 2005, the Company recorded $3.4 million of employee separation charges, which included $2.2 million related to general worldwide work force reductions of approximately 60 employees. These headcount reductions were initiated for cost savings purposes. In June 2006, the Company reversed the remaining $0.1 million reserve related to this general workforce reduction after all terminations and associated severance payments had been completed.

The other $1.2 million of employee separation charges related to the planned termination of 80 employees in Malaysia resulting from the transfer of wafer fabrication manufacturing operations, which supports the standard components product line, from Malaysia to the United States. However, due to the current increase in demand from customers, the Company informed employees that the wafer fabrication portion of this site will remain open and the transfer to the United States was cancelled and the remaining $1.2 million accrual was reversed in June 2006.

All terminations and associated severance payments related to these charges have been completed. The Company does not expect any additional charges related to the June 2005 restructuring program. A reconciliation of the beginning and ending reserve balances related to this program is as follows (in millions):

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Six months ended June 30, 2006	$ 1.5	$ —	$(0.2)	$ (1.3)	$ —

December 2003 Restructuring Program

Cumulative charges of $8.2 million offset by adjustments of $0.8 million have been incurred through June 30, 2006, related to the December 2003 restructuring program. This includes $7.0 million of employee separation costs (partially offset by $0.7 million of adjustments) and $1.2 million of cash exit costs (partially offset by $0.1 million of adjustments).

The employee separation costs of $7.0 million (partially offset by $0.7 million of adjustments) reflect the phase-out of manufacturing operations at the Company's East Greenwich, Rhode Island facility, the shutdown of the Company's assembly and test operations in Roznov, Czech Republic, that was announced in November 2003, and further reductions in general and administrative staffing levels in the United States and Western Europe for cost savings purposes. The employee separation charges for East Greenwich totaled $3.8 million (partially offset by $0.8 million of adjustments) for approximately 325 employees, of which 2 employees remain to be terminated as of June 30, 2006 which is expected to occur during the third quarter of 2006. The Company's East Greenwich, Rhode Island manufacturing facility supports the Company's Analog Product Group.

The Czech Republic employee separation charge for approximately 460 employees totaled $2.3 million (partially increased by $0.1 million of adjustments). All terminations and associated severance payments related to this charge have been completed.

The reduction in general and administrative functions in the United States and Europe totaled $0.9 million for 10 employees of which $0.1 million remained unpaid for one employee remaining to be terminated as of June 30, 2006. This termination and associated severance payments are expected to be completed by the fourth quarter of 2006.

The cash exit costs of $1.2 million (partially offset by $0.1 million of adjustments) include lease and contract termination costs incurred in connection with the consolidation of sales, distribution and administrative facilities in North America as well as charges related to certain exit activities that were completed in connection with the shutdown of manufacturing operations in East Greenwich, Rhode Island. All associated payments related to these exit costs have been completed.

The Company does not expect any additional charges related to the December 2003 restructuring program. A reconciliation of the beginning and ending reserve balances related to this program is as follows (in millions):

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Six months ended June 30, 2006	$ 0.4		$(0.3)		$ 0.1

December 2002 Restructuring Program

Cumulative charges since 2002 of $11.9 million, offset by adjustments of $2.1 million, have been incurred through June 30, 2006, related to the December 2002 restructuring program. This includes $10.1 million for employee separation costs (partially offset by $2.0 million of adjustments) relating to the termination of approximately 300 employees and approximately $1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets. The headcount reductions began in the first quarter of 2003 and impacted both manufacturing and non-manufacturing personnel mainly in the United States. These headcount reductions were initiated for cost savings purposes. The $2.1 million of adjustments were primarily made for employees whose terminations were rescinded due to business improvements and the plan to consolidate accounting systems, $0.1 million of which occurred in June 2006. As of June 30, 2006, there were no employees remaining to be terminated, and all severance payments had been made.

The Company does not expect any additional charges related to the December 2002 restructuring program. A reconciliation of the beginning and ending reserve balances related to this program is as follows (in millions):

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Six months ended June 30, 2006	$ 0.2	$ —	$(0.1)	$ (0.1)	$ —

March 2002 Restructuring Program

Cumulative charges of $7.2 million and additional charges from adjustments of $0.5 million have been incurred as of June 30, 2006, related to the March 2002 restructuring program. This includes approximately $5.0 million attributable to employee terminations resulting from the Company's decision to relocate its European administrative functions from Toulouse, France to Roznov, Czech Republic and Piestany, Slovakia for cost savings purposes. The relocation of these functions was completed in 2003. The remaining $2.2 million related to reductions in selling, general and administrative personnel primarily in the U.S, which included $0.2 million of non-cash employee stock compensation expense associated with the modification of stock options for certain terminated employees. Subsequent to March 2002, the Company recorded an additional $0.5 million in employee separation costs relating to the relocation of the administrative functions in Toulouse, France based on the Company's estimate of costs to complete the activity at the times the adjustments were recorded. As of December 31, 2005, all employees had been terminated under this program and the remaining liability relating to this restructuring of $0.2 million as of June 30, 2006 is expected to be paid by December 2006. The Company does not expect any additional charges related to the March 2002 restructuring program. A reconciliation of the beginning and ending reserve balances related to this program is as follows (in millions):

	Balance at Beginning of Period	Charges	Usage	Adjustments	Balance at End of Period
Cash employee separation charges:					
Six months ended June 30, 2006	$ 0.2	$ —	$—	$ —	$ 0.2

As of June 30, 2006, the total reserve balance for all restructuring programs of $0.3 million was comprised entirely of employee severance charges.

Asset Impairments

In June 2006, the Company recorded $4.7 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. Over the past three years the Company has capitalized approximately $10.6 million of software development costs associated with modifications and enhancements to several business process and related systems. The $4.7 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 development of these assets as other than temporarily idled. The decision to cease development of these assets in the second quarter of 2006 was triggered by a reallocation of corporate resources from these projects to other projects due to changes in corporate priorities, which include new objectives that arose from the purchase of the Gresham, Oregon wafer fabrication facility in May 2006 (See *Note 6: Asset Acquisition* for further discussion). The amount of the asset impairment charge taken in June 2006, of $4.7 million, was determined based on the costs that had previously been capitalized related to the projects that have been abandoned.

A reconciliation of the activity described above to the "Restructuring, asset impairments and other, net" caption on the statement of operations for the quarter and six months ended June 30, 2006 and July 1, 2005, follows (in millions):

	Quarter And Six Months Ended June 30, 2006
Asset impairment charges	$ 4.7
Less: net adjustments to restructuring reserves	(1.4)
	$ 3.3

Note 8: Balance Sheet Information

Balance sheet information is as follows (in millions):

	June 30, 2006	December 31, 2005
Receivables, net:		
Accounts receivable	$ 203.6	$ 163.0
Less: Allowance for doubtful accounts	(3.1)	(2.8)
	$ 200.5	$ 160.2
Inventories, net:		
Raw materials	$ 21.5	$ 18.0
Work in process	104.0	88.1
Finished goods	69.6	63.4
	$ 195.1	$ 169.5
Property, plant and equipment, net:		
Land	$ 28.0	$ 14.9
Buildings	351.1	335.9
Machinery and equipment	1,132.0	1,004.2
Total property, plant and equipment	1,511.1	1,355.0
Less: Accumulated depreciation	(943.7)	(916.5)
	$ 567.4	$ 438.5
Accrued expenses:		
Accrued payroll	$ 46.2	$ 31.0
Sales related reserves	33.5	28.7
Restructuring reserves	0.3	2.3
Accrued pension liability	2.0	1.9
Other	42.5	20.0
	$ 124.5	$ 83.9
Other comprehensive income:		
Foreign currency translation adjustments	$ (1.2)	$ (2.5)
Net unrealized gains and adjustments related to cash flow hedges	4.8	3.2
	$ 3.6	$ 0.7

The activity related to the Company’s warranty reserves for the six months ended June 30, 2006 is as follows (in millions):

Balance as of December 31, 2005	$ 4.0
Provision	0.5
Usage	(0.3)
Adjustments	—
Balance as of June 30, 2006	$ 4.2

The activity related to the Company's warranty reserves for the six months ended July 1, 2005 is as follows (in millions):

Balance as of December 31, 2004	$ 3.0
Provision	0.4
Usage	(0.8)
Adjustments	(0.1)
Balance as of July 1, 2005	$ 2.5

The Company maintains a defined benefit plan for some of its foreign subsidiaries. The Company recognizes a minimum liability in its financial statements for its underfunded pension plans. As of June 30, 2006 and December 31, 2005, the total accrued pension liability was $12.6 million and $12.4 million, respectively, of which $2.0 million and $1.9 million, respectively, were classified as accrued expenses. The components of the Company's net periodic pension expense for the quarter and six months ended June 30, 2006, and July 1, 2005 are as follows (in millions):

	Quarter Ended June 30, 2006	Quarter Ended July 1, 2005		
	Foreign Pension Plans	U.S. Pension Plan	Foreign Pension Plans	Total
Service cost	$ 0.3	$ —	$ 0.2	$ 0.2
Interest cost	0.2	0.5	0.3	0.8
Expected return on plan assets	(0.2)	—	(0.1)	(0.1)
Amortization of prior service cost	0.1	—	0.1	0.1
Total net periodic pension cost	$ 0.4	$ 0.5	$ 0.5	$ 1.0

	Six Months Ended June 30, 2006	Six Months Ended July 1, 2005		
	Foreign Pension Plans	U.S. Pension Plan	Foreign Pension Plans	Total
Service cost	$ 0.5	$ —	$ 0.5	$ 0.5
Interest cost	0.5	1.0	0.5	1.5
Expected return on plan assets	(0.3)	—	(0.2)	(0.2)
Amortization of prior service cost	0.2	—	0.1	0.1
Total net periodic pension cost	$ 0.9	$ 1.0	$ 0.9	$ 1.9

For the quarter and six months ended July 1, 2005, the Company did not incur service cost under the U.S. Pension Plan as benefits under that plan stopped accumulating as of December 31, 2004. Furthermore, the U.S. Pension Plan was terminated, all liabilities had been settled and all plan assets belonging to the U.S. Pension Plan had been used to complete the termination of the U.S. Pension Plan as of December 31, 2005.

Note 9: Long-Term Debt

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

	June 30, 2006 Balance	December 31, 2005 Balance
Senior Bank Facilities:		
Term Loan, interest payable quarterly at 7.7500% and 7.1875%, respectively	$ 635.7	$ 639.1
Revolver	—	—
	635.7	639.1
Zero Coupon Convertible Senior Subordinated Notes due 2024	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025	95.0	95.0
2.25% Note payable to Japanese bank due 2005 through 2010, interest payable semi-annually	14.2	15.4
Loan with a Chinese bank due 2006 through 2007, interest payable quarterly at 6.730% and 5.867%, respectively	14.0	14.0
Loan with a Chinese bank due 2006 through 2013, interest payable semiannually at 7.030% and 6.167%, respectively	32.0	34.4
Capital lease obligations	10.1	9.1
	1,061.0	1,067.0
Less: Current maturities	(51.2)	(73.9)
	$1,009.8	$ 993.1

Annual maturities relating to the Company's long-term debt as of June 30, 2006 are as follows (in millions):

Remainder of 2006	$ 37.7
2007	20.9
2008	14.2
2009 (1)	624.8
2010	264.2
Thereafter	99.2
Total	$ 1,061.0

(1) The term loan portion of the Company's credit facility matures December 15, 2009. However, if the first date on which holders of at least $210.0 million in aggregate principal amount of the Company's zero coupon convertible senior subordinated notes due 2024 can exercise their "put" right is extended (currently April 10, 2010), the term loan will mature six months prior to such date.

February 2006 Amendment to Senior Bank Facilities

In February 2006, the Company refinanced the term loans under its senior bank facilities to reduce the interest rate from LIBOR plus 2.75% to LIBOR plus 2.50%. The amended and restated credit agreement also provided for a step down provision that reduced the interest rate to LIBOR plus 2.25% since the Company maintained a specified credit rating and meets the specified leverage ratio test based on the Company's 2005 results.

March 2006 Amendment to Senior Bank Facilities

The credit agreement relating to the Company's senior bank facilities includes a provision requiring an annual calculation of cash flow (as defined in the credit agreement) and the application of a portion of that cash flow as a prepayment of loans outstanding under the agreement. In March 2006, the Company obtained an amendment to this provision of the credit agreement, which requires prepayment only at the election of the debt holders. As a result of this amendment, only $0.1 million of the $26.0 million classified as a current maturity as of December 31, 2005 was paid at the election of the debt holders during the first quarter of 2006. Therefore, the remaining $25.9 million was reclassified to long-term debt during 2006.

July 2006 Exchange Offer for Zero Coupon Convertible Senior Subordinated Notes due 2024

In June 2006, the Company commenced an offer to exchange all of its then outstanding $260.0 million principal amount of zero coupon convertible senior subordinated notes due 2024 for a like principal amount of the new notes plus an exchange fee of $2.50 per $1,000 principal amount of their old notes validly tendered and accepted for exchange. The new notes contain a net share settlement feature, which will reduce the amount of shares included in diluted net income per share beginning in the third quarter of 2006. On July 21, 2006, the Company issued $259.5 million aggregate principal amount of new notes that are convertible into cash up to the par value, at a conversion rate of 101.8849 shares per $1,000 principle under certain circumstances. The excess of fair value over par value is convertible into stock. The exchange expired on July 19, 2006, and 99.8% of the aggregate principal amount of the old notes were tendered and subsequently exchanged.

Debt Guarantees

The Company is the sole issuer of the zero coupon convertible senior subordinated notes due 2025 and the 1.875% convertible senior subordinated notes due 2024 (collectively, "the Notes"). The Company's domestic subsidiaries (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 nominal equity interests in certain of the Company's other foreign subsidiaries. The Company's remaining subsidiaries (collectively, the "Non-Guarantor Subsidiaries") are not guarantors of the Notes.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(unaudited)

	Issuer ON Semiconductor Corporation (1)	SCI LLC (Guarantor)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of June 30, 2006						
Cash and cash equivalents	$ —	$ 227.8	$ —	$ 66.9	$ —	$ 294.7
Receivables, net	—	52.2	—	148.3	—	200.5
Inventories, net	—	34.8	—	166.0	(5.7)	195.1
Other current assets	—	11.3	2.4	24.8	—	38.5
Deferred income taxes	—	(1.8)	—	7.6	—	5.8
Total current assets	—	324.3	2.4	413.6	(5.7)	734.6
Property, plant and equipment, net	—	170.1	3.1	394.2	—	567.4
Deferred income taxes	—	1.8	—	(1.1)		0.7
Goodwill and intangible assets	—	15.6	69.2	4.1	—	88.9
Investments and other assets	47.2	149.9	39.4	20.6	(225.7)	31.4
Total assets	$ 47.2	$ 661.7	$ 114.1	$ 831.4	$ (231.4)	$1,423.0
Accounts payable	$ —	$ 32.0	$ 0.1	$ 114.2	$ —	$ 146.3
Accrued expenses and other current liabilities	0.1	80.3	1.0	99.4	1.8	182.6
Deferred income on sales to distributors	—	41.1	—	85.8	—	126.9
Total current liabilities	0.1	153.4	1.1	299.4	1.8	455.8
Long-term debt	355.0	635.0	—	19.8	—	1,009.8
Other long-term liabilities	—	18.8	0.3	13.1	—	32.2
Intercompany	(207.9)	(352.6)	179.4	175.4	205.7	—
Total liabilities	147.2	454.6	180.8	507.7	207.5	1,497.8
Minority interests in consolidated subsidiaries	—	—	—	—	25.2	25.2
Stockholders' equity (deficit)	(100.0)	207.1	(66.7)	323.7	(464.1)	(100.0)
Liabilities, minority interests and stockholders' equity (deficit)	$ 47.2	$ 661.7	$ 114.1	$ 831.4	$ (231.4)	$1,423.0

	Issuer ON Semiconductor Corporation (1)	SCI LLC (Guarantor)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
As of December 31, 2005						
Cash and cash equivalents	$ —	$ 147.0	$ —	$ 86.3	$ —	$ 233.3
Receivables, net	—	29.4	—	130.8	—	160.2
Inventories, net	—	22.0	—	160.4	(12.9)	169.5
Other current assets	—	7.0	2.4	20.5	—	29.9
Deferred income taxes	—	—	—	7.4	—	7.4
Total current assets	—	205.4	2.4	405.4	(12.9)	600.3
Property, plant and equipment, net	—	73.7	3.4	361.4	—	438.5
Goodwill	—	8.1	69.2	—	—	77.3
Investments and other assets	(153.1)	66.6	38.8	22.8	57.3	32.4
Total assets	$ (153.1)	$ 353.8	$ 113.8	$ 789.6	$ 44.4	$1,148.5
Accounts payable	$ —	$ 22.9	$ 0.5	$ 113.9	$ —	$ 137.3
Accrued expenses and other current liabilities	—	78.7	1.4	82.1	1.7	163.9
Deferred income on sales to distributors	—	32.4	—	64.7	—	97.1
Total current liabilities	—	134.0	1.9	260.7	1.7	398.3
Long-term debt	355.0	610.4	—	27.7	—	993.1
Other long-term liabilities	—	17.8	0.5	13.1	—	31.4
Deferred income taxes	—	—	—	1.2	—	1.2
Intercompany	(207.8)	(414.7)	174.0	243.0	205.5	—
Total liabilities	147.2	347.5	176.4	545.7	207.2	1,424.0
Minority interests in consolidated subsidiaries	—	—	—	—	24.8	24.8
Stockholders' equity (deficit)	(300.3)	6.3	(62.6)	243.9	(187.6)	(300.3)
Liabilities, minority interests and stockholders' equity (deficit)	$ (153.1)	$ 353.8	$ 113.8	$ 789.6	$ 44.4	$1,148.5

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(unaudited)

	Issuer ON Semiconductor Corporation (1)	SCI LLC (Guarantor)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the quarter ended June 30, 2006						
Revenues	$ —	$ 133.6	$ 6.9	$ 468.8	$ (234.0)	$375.3
Cost of revenues	—	109.9	0.7	351.3	(239.8)	222.1
Gross profit	—	23.7	6.2	117.5	5.8	153.2
Research and development	—	6.2	2.7	16.3	—	25.2
Selling and marketing	—	13.0	0.2	9.5	—	22.7
General and administrative	—	2.4	(0.2)	19.1	—	21.3
Restructuring, asset impairments and other, net	—	4.5	—	(1.2)	—	3.3
Total operating expenses	—	26.1	2.7	43.7	—	72.5
Operating income (loss)	—	(2.4)	3.5	73.8	5.8	80.7
Interest expense, net	(0.9)	(4.0)	(2.3)	(3.1)	—	(10.3)
Other	—	2.3	—	(2.5)	—	(0.2)
Equity in earnings	68.4	68.7	1.4	—	(138.5)	—
Income (loss) before income taxes, and minority interests	67.5	64.6	2.6	68.2	(132.7)	70.2
Income tax provision	—	2.0	—	(3.8)	—	(1.8)
Minority interests	—	—	—	—	(0.9)	(0.9)
Net income (loss)	$ 67.5	$ 66.6	$ 2.6	$ 64.4	$ (133.6)	$ 67.5
For the quarter ended July 1, 2005						
Revenues	$ —	$ 99.9	$ 18.0	$ 401.8	$ (216.9)	$302.8
Cost of revenues	—	99.4	5.7	318.5	(219.3)	204.3
Gross profit	—	0.5	12.3	83.3	2.4	98.5
Research and development	—	6.1	2.7	14.2	—	23.0
Selling and marketing	—	10.0	0.1	8.8	—	18.9
General and administrative	—	8.0	6.8	2.7	—	17.5
Restructuring, asset impairments and other, net	—	1.2	0.1	1.5	—	2.8
Total operating expenses	—	25.3	9.7	27.2	—	62.2
Operating income (loss)	—	(24.8)	2.6	56.1	2.4	36.3
Interest expense, net	(0.4)	(8.2)	(2.5)	(3.1)	—	(14.2)
Other	—	(3.4)	—	2.8	—	(0.6)
Equity in earnings	18.9	60.2	1.6	—	(80.7)	—
Income (loss) before income taxes, and minority interests	18.5	23.8	1.7	55.8	(78.3)	21.5
Income tax provision	—	(6.5)	—	4.5	—	(2.0)
Minority interests	—	—	—	—	(1.0)	(1.0)
Net income (loss)	$ 18.5	$ 17.3	$ 1.7	$ 60.3	$ (79.3)	$ 18.5

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(unaudited)

	Issuer ON Semiconductor Corporation (1)	SCI LLC (Guarantor)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the six months ended June 30, 2006						
Revenues	$ —	$ 245.0	$ 6.9	$ 902.5	$ (445.1)	$ 709.3
Cost of revenues	—	198.4	1.4	690.9	(452.3)	438.4
Gross profit	—	46.6	5.5	211.6	7.2	270.9
Research and development	—	10.6	5.6	32.6	—	48.8
Selling and marketing	—	24.4	0.4	18.9	—	43.7
General and administrative	—	4.2	(0.2)	37.5	—	41.5
Restructuring, asset impairments and other, net	—	4.5	—	(1.2)	—	3.3
Total operating expenses	—	43.7	5.8	87.8	—	137.3
Operating income (loss)	—	2.9	(0.3)	123.8	7.2	133.6
Interest expense, net	(1.9)	(8.3)	(4.6)	(6.5)	—	(21.3)
Other	—	4.9	—	(4.1)	—	0.8
Equity in earnings	109.8	106.8	2.0	—	(218.6)	—
Income (loss) before income taxes, and minority interests	107.9	106.3	(2.9)	113.2	(211.4)	113.1
Income tax provision	—	1.4	—	(5.2)	—	(3.8)
Minority interests	—	—	—	—	(1.4)	(1.4)
Net income (loss)	$ 107.9	$ 107.7	$ (2.9)	$ 108.0	$ (212.8)	$ 107.9
Net cash provided by operating activities	$ —	$ 77.7	$ 0.1	$ 53.9	$ —	$ 131.7
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(94.0)	(0.1)	(41.0)	—	(135.1)
Deposits utilized for purchases of property, plant and equipment	—	—	—	0.3	—	0.3
Purchases of intangible assets	—	(11.9)	—	—	—	(11.9)
Proceeds from sales of available-for-sale securities	—	2.3	—	—	—	2.3
Proceeds from sales of property, plant and equipment	—	0.7	—	0.4	—	1.1
Net cash used in investing activities	—	(102.9)	(0.1)	(40.3)	—	(143.3)
Cash flows from financing activities:						
Intercompany loans	—	(228.1)	—	228.1	—	—
Intercompany loan repayments	—	255.3	—	(255.3)	—	—
Proceeds from issuance of common stock under the employee stock purchase plan	—	1.1	—	—	—	1.1
Proceeds from exercise of stock options	—	8.9	—	—	—	8.9
Dividends to minority shareholder of consolidated subsidiary	—	1.3	—	(2.3)	—	(1.0)
Equity injections from parent	—	—	1.3	—	—	1.3
Subsidiary declared dividend	—	—	(1.3)	—	—	(1.3)
Proceeds from issuance of common stock, net of issuance costs	—	76.4	—	—	—	76.4
Payment of capital lease obligation	—	(3.9)	—	—	—	(3.9)
Payment of debt issuance costs	—	(1.7)	—	—	—	(1.7)
Repayment of long term debt	—	(3.3)	—	(4.1)	—	(7.4)
Net cash provided by (used in) financing activities	—	106.0	—	(33.6)	—	72.4
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.6	—	0.6
Net increase (decrease) in cash and cash equivalents	—	80.8	—	(19.4)	—	61.4
Cash and cash equivalents, beginning of period	—	147.0	—	86.3	—	233.3
Cash and cash equivalents, end of period	$ —	$ 227.8	$ —	$ 66.9	$ —	$ 294.7

	Issuer ON Semiconductor Corporation (1)	SCI LLC (Guarantor)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
For the six months ended July 1, 2005						
Revenues	$ —	$ 210.5	$ 25.8	$ 790.0	$ (421.1)	$605.2
Cost of revenues	—	195.6	18.4	633.6	(437.1)	410.5
Gross profit	—	14.9	7.4	156.4	16.0	194.7
Research and development	—	12.2	5.6	28.3	—	46.1
Selling and marketing	—	20.3	0.4	17.5	—	38.2
General and administrative	—	13.7	7.0	17.2	—	37.9
Restructuring, asset impairments and other, net	—	1.1	(0.3)	3.1	—	3.9
Total operating expenses	—	47.3	12.7	66.1	—	126.1
Operating income (loss)	—	(32.4)	(5.3)	90.3	16.0	68.6
Interest expense, net	(0.8)	(14.1)	(5.1)	(7.9)	—	(27.9)
Other	—	(4.4)	—	2.8	—	(1.6)
Equity in earnings	34.1	87.9	3.1	—	(125.1)	—
Income (loss) before income taxes, and minority interests	33.3	37.0	(7.3)	85.2	(109.1)	39.1
Income tax provision	—	(6.0)	—	2.2	—	(3.8)
Minority interests	—	—	—	—	(2.0)	(2.0)
Net income (loss)	$ 33.3	$ 31.0	$ (7.3)	$ 87.4	$ (111.1)	$ 33.3
Net cash provided by (used in) operating activities	$ —	$ (61.8)	$ (0.7)	$ 160.7	$ —	$ 98.2
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(6.0)	—	(16.0)	—	(22.0)
Purchases of held-to-maturity securities	—	(2.1)	—	—	—	(2.1)
Purchases of available-for-sale securities	—	(16.1)	—	—	—	(16.1)
Proceeds from sales of held-to-maturity securities	—	24.1	—	—	—	24.1
Proceeds from sales of available-for-sale securities	—	63.9	—	—	—	63.9
Proceeds from sales of property, plant and equipment	—	0.1	0.7	—	—	0.8
Net cash provided by (used in) investing activities	—	63.9	0.7	(16.0)	—	48.6
Cash flows from financing activities:						
Intercompany loans	—	(279.4)	180.0	99.4	—	0.0
Intercompany loan repayments	—	418.2	(180.0)	(238.2)	—	—
Proceeds from issuance of common stock under the employee stock purchase plan	—	0.9	—	—	—	0.9
Proceeds from exercise of stock options and warrants	—	1.0	—	—	—	1.0
Dividends to minority shareholder of consolidated subsidiary	—	3.0	—	(5.0)	—	(2.0)
Equity injections from parent	—	—	3.0	—	—	3.0
Subsidiary declared dividend	—	—	(3.0)	—	—	(3.0)
Payment of capital lease obligation	—	(3.0)	—	(0.1)	—	(3.1)
Payment of debt issuance costs	—	(0.2)	—	—	—	(0.2)
Repayment of long term debt	—	(3.2)	—	(10.2)	—	(13.4)
Net cash provided by (used in) financing activities	—	137.3	—	(154.1)	—	(16.8)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(0.1)	—	(0.1)
Net increase (decrease) in cash and cash equivalents	—	139.4	—	(9.5)	—	129.9
Cash and cash equivalents, beginning of period	—	15.1	—	90.6	—	105.7
Cash and cash equivalents, end of period	$ —	$ 154.5	$ —	$ 81.1	$ —	$235.6

(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 of its cash receipts and disbursements on its behalf.

Note 10: Common Stock

On April 6, 2006, the Company completed a public offering of common stock registered pursuant to a shelf registration statement originally filed with the Securities and Exchange Commission on January 2, 2004. In connection with this offering, the Company issued approximately 11.2 million shares (which includes 0.7 million shares issued as over-allotments) at a price of $7.00 per share. The net proceeds from this offering received by the Company were $75.2 million after deducting the underwriting discount of $1.6 million ($0.14 per share) and offering expenses of $1.3 million (including $1.2 million that were unpaid as of June 30, 2006). The Company intends to used the net proceeds to partially fund the purchase of LSI's Gresham wafer fabrication facility, which had a total purchase price of $105 million. See further discussion in *Note 6: Asset Acquisition*.

Income per share calculations for the quarter and six months ended June 30, 2006 and July 1, 2005, are as follows (in millions, except per share data):

	Quarter Ended		Six Months Ended	
	June 30, 2006	July 1, 2005	June 30, 2006	July 1, 2005
Net income	$ 67.5	$ 18.5	$107.9	$ 33.3
Less: Accretion to redemption value of convertible redeemable preferred stock	—	0.1	—	0.2
Less: Convertible redeemable preferred stock dividends	—	(2.6)	—	(5.2)
Less: Allocation of undistributed earnings to preferred shareholders	—	(2.5)	—	(4.4)
Net income applicable to common stock	67.5	13.5	107.9	23.9
Add: Amortization of debt issuance costs of zero coupon convertible subordinated notes, net of tax	0.3	0.4	0.7	0.8
Diluted net income applicable to common stock	$ 67.8	$ 13.9	$108.6	$ 24.7
Basic weighted average common shares outstanding	322.8	255.3	317.3	255.2
Add: Incremental shares for:				
Dilutive effect of equity based compensation	6.4	6.0	7.0	6.1
1.875% convertible senior subordinated notes	—	—	—	—
Convertible redeemable preferred stock	—	—	—	—
Convertible zero coupon senior subordinated notes	26.5	26.5	26.5	26.5
Diluted weighted average common shares outstanding	355.7	287.8	350.8	287.8
Income per common share				
Basic:	$ 0.21	$ 0.05	$ 0.34	$ 0.09
Diluted:	$ 0.19	$ 0.05	$ 0.31	$ 0.09

Basic income per share is computed by dividing net income, adjusted for the accretion to redemption value and dividends related to the Company's preferred stock during the periods they were outstanding, by the weighted average number of common shares outstanding during the period. In periods in which the Company generated income when the preferred stock was outstanding, the two-class method was used to calculate basic earnings per share whereby net income, adjusted for the accretion to redemption value and dividends related to the Company's preferred stock, is allocated on a pro-rata basis between common and preferred stockholders, as required by Emerging Issues Task Force ("EITF") Issue 03-6, due to the preferred stockholders' right to participate in dividends declared on the Company's common stock.

Diluted income per share generally would assume the conversion of the preferred stock into common stock if dilutive and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options and upon the assumed conversion of the zero coupon convertible senior subordinated notes. However, since basic earnings per share under the two-class method is lowered due to the allocation of undistributed earnings to preferred stockholders in periods the preferred stock was outstanding, the impact to diluted earnings per share of the assumed conversion of the convertible redeemable preferred stock into common stock is anti-dilutive, and therefore is excluded from the calculation of diluted earnings per share.

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 options were 16.6 million and 12.7 million for the quarter and six months ended June 30, 2006, respectively, and 16.6 million and 16.0 million for the quarter and six months ended July 1, 2005, respectively.

For the quarter and six months ended June 30, 2006, the assumed conversion of the 1.875% convertible senior subordinated notes was also excluded in determining diluted earnings per share. The 1.875% convertible senior subordinated notes are convertible into cash up to the par value of $95.0 million, based on an initial conversion price of approximately $7.00 per share. The excess of fair value over par value is convertible into stock. As of June 30, 2006, the Company's common stock traded below $7.00; thus, the effects of an assumed conversion would have been anti-dilutive and therefore were excluded.

For the assumed conversion of the zero coupon convertible senior subordinated notes, $0.3 million and $0.7 million and $0.4 million and $0.8 million of amortization expense of debt issuance costs for the quarters and six months ended June 30, 2006 and July 1, 2005, respectively, was added back to net income to calculate diluted earnings per share.

Note 11: Employee Stock Benefit Plans

Employee Stock Options

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

On February 17, 2000, the Company adopted the 2000 Stock Incentive Plan ("the 2000 Plan") which provides key employees, directors and consultants with various equity-based incentives as described in the plan document. The 2000 Plan is administered by the Board of Directors or a committee thereof, which is authorized to determine, among other things, the key employees, directors or consultants who will receive awards under the plan, the amount and type of award, exercise prices or performance criteria, if applicable, and vesting schedules. Through December 31, 2004, stockholders had approved amendments to the 2000 Plan which have increased the number of shares of the Company's common stock reserved and available for grant to 30.5 million, plus an additional number of shares of the Company's common stock equal to 3% of the total number of outstanding

shares of common stock effective automatically on January 1st of each year beginning January 1, 2005 and ending January 1, 2010. As of January 1, 2006 and 2005, the number of shares of the Company's common stock reserved and available for grant increased by 9.3 million and 7.7 million, respectively to 47.5 million and 38.2 million, from 30.5 million shares as of December 31, 2004, in accordance with the approved amendments. The 2000 Plan has also been amended to increase the maximum number of options granted to any one participant during a fiscal year from 1.0 million shares to 2.5 million, and to allow the Board of Directors to adopt a program of exchanging underwater options for newly issued options.

Generally, the options granted under both plans vest over a period of four years and have a term of 10 years. Under the 1999 Plan, all outstanding options and under the 2000 Plan certain outstanding options vest automatically upon a change of control, as defined, provided the option holder is employed by the Company on the date of the change in control. Under the 2000 Plan, certain other outstanding options vest upon a change of control if the Board of Directors of the Company, at its discretion, provides for acceleration of the vesting of said options. Upon the termination of an option holder's employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability), unless otherwise specified in an option holder's employment or stock option agreement.

There was an aggregate of 18.3 million and 13.6 million shares of common stock available for grant under both plans at June 30, 2006 and December 31, 2005, respectively.

Share-Based Compensation Information under SFAS No. 123R

The fair value of each option grant in 2005 and thereafter is estimated on the date of grant using a lattice-based option valuation model. In past years, the Company has used the Black-Scholes option-pricing model to calculate the fair value of its options. 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 each option grant.

The weighted-average estimated fair value of employee stock options granted during the quarter and six months ended June 30, 2006 was $2.65 per share and $2.91 per share, respectively, and was calculated using the lattice model with the following weighted-average assumptions (annualized percentages):

	Quarter Ended June 30, 2006	Six Months Ended June 30, 2006
Volatility	49.6%	48.8%
Risk-free interest rate	5.0%	4.8%
Post-vesting forfeiture rate	8.9%	9.3%
Rate of exercise	28.8%	28.6%

The Company used implied volatility of market—traded options of the Company's stock exclusively for the expected volatility assumption input to the lattice model. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected life of the Company's employee stock options. The Company has historically not declared dividends, thus the dividend yield was assumed to be zero in the lattice model. The post-vesting forfeiture rate and rate of exercise factor are based on the Company's historical option cancellation and employee exercise information, respectively. The rate of exercise indicates the annual rate at which vested, in-the-money options have historically been exercised early.

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is a derived output of the lattice model. The expected life of employee stock options is impacted by all of the underlying assumptions used in the Company's model. The lattice model assumes that employees' exercise behavior is a function of the option's remaining contractual life and the extent to which the option is in-the-money (i.e., the average stock price during the period is above the strike price of the stock option). The lattice model estimates the probability of exercise as a function of these two variables based on the history of exercises and cancellations on past option grants made by the Company. The expected life for options granted during the quarter and six months ended June 30, 2006 derived from the lattice model was 4.0 years.

In the Company's pro forma information required under SFAS No. 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred. Share-based compensation expense recognized in the Consolidated Statement of Operations for the first quarter of fiscal year 2006 is based on awards ultimately expected to vest. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be approximately 13% in the second quarter of fiscal year 2006 based on historical experience.

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 quarter and six months ended June 30, 2006 was $1.48 per share and $1.40 per share. The weighted-average assumptions used in the pricing model are as follows:

Employee Stock Purchase Plan	Quarter Ended June 30, 2006	Six Months Ended June 30, 2006
Expected life (in years)	0.25	0.25
Risk-free interest rate	4.67%	4.41%
Volatility	51.00%	47.00%

Total estimated share-based compensation expense, related to the Company's employee stock options and employee stock purchase plan, recognized for the quarter and six months ended June 30, 2006 was comprised as follows (in millions, except per share data):

	Quarter Ended June 30, 2006	Six Months Ended June 30, 2006
Cost of revenues	$ 0.6	$ 0.9
Research and development	0.4	0.8
Selling and marketing	0.5	1.0
General and administrative	0.8	1.5
Share-based compensation expense before income taxes	2.3	4.2
Related income tax benefits (1)	—	—
Share-based compensation expense, net of taxes	$ 2.3	$ 4.2
Net share-based compensation expense, per common share:		
Basic	$ 0.01	$ 0.01
Diluted	$ 0.01	$ 0.01

(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.

The Company recorded $0.3 million and $1.3 million in share-based compensation expense during the quarter and six months ended June 30, 2006, respectively, related to share-based awards granted during the quarter and six months ended June 30, 2006. This included expense related to the Employee Stock Purchase Plan of $0.2 million and $0.3 million during the quarter and six months ended June 30, 2006, respectively, and $0.1 million of expense related to awards of restricted stock units. The remaining expense related to share-based awards granted prior to December 31, 2005.

Pro Forma Information under SFAS No. 123 for the quarter and six months ended July 1, 2005

Prior to adopting the provisions of SFAS No. 123R, the Company recorded estimated compensation expense for employee stock options based upon their intrinsic value on the date of grant pursuant to Accounting Principles Board Opinion 25 (APB 25), "Accounting for Stock Issued to Employees" and provided the required pro forma disclosures of SFAS No. 123. Because the Company established the exercise price based on the fair market value of the Company's stock at the date of grant, the stock options had no intrinsic value upon grant, and therefore no estimated expense was recorded prior to adopting SFAS No. 123R.

For purposes of pro forma disclosures under SFAS No. 123 for the quarter and six months ended July 1, 2005, the estimated fair value of the stock options was assumed to be amortized to expense over the stock options' vesting periods. The pro forma effects of recognizing estimated compensation expense under the fair value method on net income and earnings per common share for the quarter and six months ended July 1, 2005 were as follows (in millions, except per share data):

	Quarter Ended July 1, 2005	Six Months Ended July 1, 2005
Net income, as reported	$ 18.5	$ 33.3
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	—
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(3.4)	(7.0)
Pro-forma net income	15.1	26.3
Less: Accretion to redemption value of convertible redeemable preferred stock	0.1	0.2
Less: Convertible redeemable preferred stock dividends	(2.6)	(5.2)
Less: Allocation of undistributed earnings to preferred shareholders	(2.0)	(3.3)
Net income applicable to common stock	$ 10.6	$ 18.0
Income per share:		
Basic—as reported	$ 0.05	$ 0.09
Basic—pro-forma	$ 0.04	$ 0.07
Diluted—as reported	$ 0.05	$ 0.09
Diluted—pro-forma	$ 0.04	$ 0.06

The fair value of option grants during the respective period was estimated at the date of grant while the fair value of the shares issued under the ON Semiconductor 2000 Employee Stock Purchase Plan was estimated at the beginning of the respective offering periods. The weighted-average Black-Scholes equivalent assumptions for the quarter and six months ended July 1, 2005, for employee stock options are detailed below:

Employee Stock Options	Quarter Ended July 1, 2005	Six Months Ended July 1, 2005
Expected life (in years)	3.84	3.82
Risk-free interest rate	3.78%	3.62%
Volatility	57.00%	59.00%

The fair value of the Employee Stock Purchase Plan shares issued during the quarter and six months ended July 1, 2005 has been calculated using the Black-Scholes option-pricing model with the weighted-average assumptions detailed below:

Employee Stock Purchase Plan	Quarter Ended July 1, 2005	Six Months Ended July 1, 2005
Expected life (in years)	0.25	0.25
Risk-free interest rate	2.80%	2.50%
Volatility	63.00%	60.00%

The weighted-average estimated fair value of employee stock options granted during the quarter and six months ended July 1, 2005 was $1.81 and $2.21 per share, respectfully. The weighted-average estimated fair value of the shares issued under the 2000 Employee Stock Purchase Plan during the quarter and six months ended July 1, 2005 was $1.01 and $1.07 per share, respectfully.

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

	Six Months Ended June 30, 2006			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (In-The-Money)
Outstanding at December 31, 2005	27.6	$ 4.92		
Grants	5.2	6.68		
Exercises	(2.7)	3.24		
Cancellations	(1.0)	7.64		
Outstanding at June 30, 2006	29.1	$ 5.30	7.93	$ 42.0
Exercisable at June 30, 2006	16.7	$ 5.36	7.15	$ 29.1

Net stock options, after forfeitures and cancellations, granted during the quarter ended June 30, 2006 and July 1, 2005 represented 0.2% and (0.1)% of outstanding shares as of the beginning of each such fiscal quarter, respectively. Total stock options granted during the quarter ended June 30, 2006 and July 1, 2005 represented 0.3% and 0.2% of outstanding shares as of the end of each such fiscal quarter, respectively.

At June 30, 2006, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was $20.6 million, which is expected to be recognized over a weighted average period

of 2.9 years. The total intrinsic value of stock options exercised during the quarter ended June 30, 2006 was $2.9 million. The Company recorded cash received from the exercise of stock options of $3.7 million and cash from issuance of shares under the Employee Stock Purchase Plan of $0.6 million and no related tax benefits during the quarter ended June 30, 2006. Upon option exercise or completion of a purchase under the Employee Stock Purchase Plan the Company issues new shares of stock.

Additional information about stock options outstanding at June 30, 2006 with exercise prices less than or above $5.88 per share, the closing price at June 30, 2006, follows (number of shares in millions):

	Exerciseable		Unexerciseable		Total	
Exercise Prices	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Less than $5.88	9.1	$ 2.66	7.1	$ 4.05	16.1	$ 3.27
Above $5.88	7.6	$ 8.55	5.4	$ 6.79	13.0	$ 7.82
Total outstanding	16.7	$ 5.36	12.5	$ 5.23	29.1	$ 5.30

Restricted Stock Units

The Company’s stock compensation plan permits the granting of restricted stock units to eligible employees and non-employee directors at fair market value at the date of the grant. Restricted stock units are payable in shares of the Company’s stock upon vesting. The following table presents a summary of the status of the Company’s nonvested restricted stock units granted to certain officers and directors of the Company as of June 30, 2006, and changes during the six months ended June 30, 2006.

	Six Months Ended June 30, 2006	
	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested shares of restricted stock units at December 31, 2005	—	$ —
Granted	0.4	6.21
Vested	—	—
Forfeited	—	—
Nonvested shares of restricted stock units at June 30, 2006	0.4	$ 6.21

As of June 30, 2006, there was approximately $1.6 million of total unrecognized compensation cost related to nonvested restricted stock units granted under the plan. The cost is expected to be recognized over the vesting period. Compensation expense related to restricted stock units was $0.1 million for the quarter ended June 30, 2006. As of June 30, 2006, the Company had approximately 0.4 million restricted stock units outstanding.

Employee Stock Purchase Plans

On February 17, 2000, the Company adopted the 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company’s eligible employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of the Company’s common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. Employees are limited to annual purchases of $25,000

under this plan. In addition, during each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to $6,250 divided by the fair market value of the stock on the first day of the offering period. During the quarter and six months ended June 30, 2006 as well as the quarter and six months ended July 1, 2005, employees purchased approximately 0.1 million and 0.2 million shares under the plan, respectively. Through December 31, 2004, shareholders have approved amendments to the 2000 Employee Stock Purchase Plan which have increased the number of shares of the Company's common stock issuable thereunder to 8.5 million shares. As of June 30, 2006, there were 3.3 million shares available for issuance under the Employee Stock Purchase Plan.

Note 12: Commitments and Contingencies

Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of June 30, 2006 (in millions):

Remainder of 2006 (1)	$ 3.6
2007	3.8
2008	2.6
2009	1.8
2010	0.7
Thereafter	1.8
Total	$14.3

(1) Minimum payments have not been reduced by minimum sublease rentals of $0.6 million due in the future under subleases. Minimum payments include the interest portion of payments for capital lease obligations.

Other Contingencies

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

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.

In connection with the purchase of the Gresham facility (see Note 6: Asset Acquisition), we entered into a wafer supply and test service agreement with LSI pursuant to which (1) we will manufacture and provide semiconductor wafer products to LSI, and (2) we will provide certain sort test, processing engineering, quality

assurance and other similar and related services that LSI may request. LSI is obligated to purchase $198.8 million of wafer products and related services (such as wafer testing and sorting services) from us during the first two years under the agreement. We also entered into several ancillary agreements including, but not limited to, an intellectual property license, a transition services agreement and a facility use agreement.

The Company's facility 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.

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.

In connection with the acquisition of the LSI's Gresham, Oregon wafer fabrication facility, the Company entered into various agreements with LSI. Pursuant to certain of these agreements, the Company agreed to indemnify LSI for certain things limited in the 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.

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 condition, results of operations or cash flows.

Legal Matters

The Company is currently 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 matter described in the next paragraphs, will have a material adverse 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 this action be unfavorable, the Company's business, financial condition, 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 its former officers, current and former directors and the underwriters for its initial public offering. The lawsuits allege violations of the federal securities laws and have been docketed in the U.S. District Court for the Southern District of New York as: *Abrams v. ON Semiconductor Corp., et al.* , C.A. No. 01-CV-6114; *Breuer v. ON Semiconductor Corp., et al.* , C.A. No. 01-CV-6287; and *Cohen v. ON Semiconductor Corp., et al.* , C.A. No. 01-CV-6942. On April 19, 2002, the plaintiffs filed a single consolidated amended complaint that supersedes the individual complaints originally filed. The amended complaint alleges, among other things, that the underwriters of the Company's initial public offering improperly required their customers to pay the underwriters' excessive commissions and to agree to buy additional shares of the Company's common stock in the aftermarket as conditions of receiving shares in 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. Management 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 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 it.

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 Court issued its ruling on the motions to dismiss filed by the underwriter and issuer defendants. In that ruling the Court granted in part and denied in part those motions. As to the claims brought against the Company under the antifraud provisions of the securities laws, the Court dismissed all of these claims with prejudice, and refused to allow plaintiffs the opportunity to re-plead these claims. As to the claims brought under the registration provisions of the securities laws, which do not require that intent to defraud be pleaded, the Court denied the motion to dismiss these claims as to the Company and as to substantially all of the other issuer defendants as well. The Court also denied the underwriter defendants' motion to dismiss in all respects.

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

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds, as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. The Company expects that its insurance proceeds will be sufficient for these purposes and that the Company will not otherwise be required to contribute to the proposed settlement.

Consummation of the proposed settlement is conditioned upon obtaining approval by the Court. On September 1, 2005, the Court preliminarily approved the proposed settlement and directed that notice of the terms of the proposed settlement be provided to class members. Thereafter, the Court held a fairness hearing on April 24, 2006, at which objections to the proposed settlement were heard. After the fairness hearing, the Court took under advisement whether to grant final approval to the proposed settlement.

If the proposed settlement described above is not consummated, the Company intends to continue to defend the litigation vigorously. While the Company can make no promises or guarantees as to the outcome of these proceedings, the Company believes that the final result of these actions will have no material effect on its consolidated financial condition, results of operations or cash flows.

Note 13: Related Party Transactions

As described in *Note 1: Background and Basis of Presentation*, on August 4, 1999, certain related transactions were effected pursuant to an agreement among the Company, SCI LLC and TPG. As of June 30, 2006, TPG owned approximately 51% of the Company's outstanding shares of common stock.

In connection with the amendment to the Company's senior bank facilities in August 2001, any management fees payable to TPG or its affiliates by the Company will not accrue and not be payable in cash until the Company's quarterly financial statements demonstrate that certain financial ratios have been achieved. TPG subsequently agreed that these fees will not accrue during the period in which the Company was not permitted to pay such fees in cash. During 2004, no TPG management fee was paid or accrued. During the fourth quarter of

2004, the Company met the requisite conditions under its amended debt agreements to allow for such annual management fee to resume. However, no services were performed by TPG during the fourth quarter of 2004, and accordingly no annual management fees were accrued for or paid during the year. During the first quarter of 2005, TPG waived the right to any future management fee subject to the Company paying certain costs and expenses associated with a resale shelf registration statement of the Company's common stock presently owned by TPG.

Note 14: Recent Accounting Pronouncements

In September 2005, the Emerging Issues Task Force reached consensus on EITF Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty" ("Issue No. 04-13). In certain situations, a company may enter into nonmonetary transactions to sell inventory to another company in the same line of business from which it also purchases inventory. Under Issue No. 04-13, in general, an entity is required to treat sales and purchases of inventory between the entity and the same counterparty as one transaction for purposes of applying APB Opinion No. 29, "Accounting for Nonmonetary Transactions" when such transactions are entered into in contemplation of each other. When such transactions are legally contingent on each other, they are considered to have been entered into in contemplation of each other. The EITF also agreed on other factors that should be considered in determining whether transactions have been entered into in contemplation of each other. Issue No. 04-13 is effective for all new arrangements entered into in reporting periods beginning after March 15, 2006. The Company's adoption of the provisions of Issue No. 04-13 did not impact its financial condition or results of operations.

In February of 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Instruments—An Amendment of FASB Statements No. 133 and No. 144" ("SFAS No. 155"). SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also clarifies which interest-only strips and principal-only strips are not subject to the requirements of FASB Statement No. 133, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. Furthermore, SFAS No. 155 clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and it amends FASB Statement No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year beginning after September 15, 2006. The Company's adoption of the provisions of SFAS No. 155 is not expected to impact its financial condition or results of operations.

In June 2006, the FASB ratified EITF Issue No. 05-01 "Accounting for the Conversion of an Instrument That Becomes Convertible upon the Issuer's Exercise of a Call Option" ("Issue No. 05-01"). Issue No. 05-01 requires the conversion accounting model to be used when equity instruments are issued to settle an instrument that becomes convertible upon the issuer's exercise of a call option if, at issuance, the debt instrument contains a substantive conversion feature. The issuance of shares to settle the debt pursuant to the original terms of the instrument should be afforded conversion treatment. However, if the instrument does not contain a substantive conversion feature at issuance, then the issuance of equity securities to settle the instrument should be recognized as a debt extinguishment. A conversion feature is considered substantive if, at issuance, it is *reasonably possible* that the conversion feature will affect the manner of the debt instrument's settlement. Issue No. 05-01 is effective for all conversions or settlements that result from exercise of call options occurring in interim or annual periods beginning after June 28, 2006. While Issue No. 05-01 requires entities to apply these rules to instruments issued

prior to the effective date, it does not require entities to evaluate and document whether the conversion feature was substantive at the time of issuance unless or until the conversion feature is exercised. The Company is currently evaluating the impact of Issue No. 05-01 to its financial position and results of operations.

In June 2006, the FASB ratified EITF Issue No. 06-03 "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)" ("Issue No. 06-03"). Under Issue No. 06-03, a company must disclose its accounting policy regarding the gross or net presentation of certain taxes. If taxes included in gross revenues are significant, a company must disclose the amount of such taxes for each period for which an income statement is presented (i.e., both interim and annual periods). Taxes within the scope of this Issue are those that are imposed on and concurrent with a specific revenue-producing transaction. Taxes assessed on an entity's activities over a period of time, such as gross receipts taxes, are not within the scope of the issue. Issue No. 06-03 is effective for the first annual or interim reporting period beginning after December 15, 2006. The Company is currently evaluating the impact of Issue No. 06-03 to its financial position and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48 "Accounting For Uncertain Tax Positions" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109 "Accounting for Income Taxes". It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 to its financial position and results of operations.

Note 15: Segment Information

The Company is engaged in the design, development, manufacture and marketing of a wide variety of semiconductor components. The Company has four main product lines: power management and standard analog devices, metal oxide semiconductor (MOS) power devices, high frequency clock and data management devices and standard components.

The Company's reportable segments, as presented below, are aligned internally as the Integrated Power Group and the Analog Products Group. These segments represent management's view of the Company's businesses and inform how it evaluates the progress of its major components. The power management and standard analog product line as well as the high frequency clock and data management product line are aligned under the Analog Products Group, while the MOS power devices product line and the standard components product line are aligned under the Integrated Power Group. The standard logic product unit, however, whose results are included in our Analog Products Group segment, is part of our standard components product line. The standard logic product unit had revenues of approximately $33.3 million and $65.4 million for the quarter and six months ended June 30, 2006 and revenues of approximately $24.9 million and $47.0 million for the quarter and six months ended July 1, 2005, respectfully.

In May 2006, the Company announced a change in the organizational structure from a product-based to a market-based organization by aligning the Company's businesses to specific customers and market segments; however, management will not begin managing the business and evaluating operating results under this new structuring until the third quarter of 2006. Therefore, beginning in the third quarter of 2006, the Company's operating segment disclosures will reflect this change, which will be applied retrospectively in those financial statements.

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 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.

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 aggregate amount of the Company's goodwill balance of $77.3 million as of June 30, 2006 and December 31, 2005 relates to the Analog Products Group. The aggregate amount of the Company's other intangible assets balance of $11.6 million, which includes intellectual property and assembled workforce, relates to the Integrated Power Group. The Company does not allocate income taxes or interest expense to its operating segments as the operating segments are principally evaluated on operating profit before interest and taxes. Additionally, restructuring, asset impairments and other, net and certain other manufacturing and operating expenses, which include corporate research and development costs, inventory reserves and miscellaneous nonrecurring expenses, are not allocated to any product segment.

Information about segments for the quarter and six months ended June 30, 2006, and for the quarter and six months ended July 1, 2005 is as follows, in millions:

	Integrated Power Group	Analog Products Group	Total
Quarter ended June 30, 2006:			
Revenues from external customers	$ 207.5	$ 167.8	$375.3
Segment operating income	$ 46.6	$ 46.9	$ 93.5
Quarter ended July 1, 2005:			
Revenues from external customers	$ 169.2	$ 133.6	$302.8
Segment operating income	$ 31.4	$ 25.2	$ 56.6

	Integrated Power Group	Analog Products Group	Total
Six months ended June 30, 2006:			
Revenues from external customers	$ 388.6	$ 320.7	$709.3
Segment operating income	$ 77.4	$ 81.9	$159.3
Six months ended July 1, 2005			
Revenues from external customers	$ 338.5	$ 266.7	$605.2
Segment operating income	$ 55.6	$ 46.2	$101.8

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

	Quarter ended	
	June 30, 2006	July 1, 2005
Operating income for reportable segments	$ 93.5	$ 56.6
Unallocated amounts:		
Restructuring, asset impairments and other, net	(3.3)	(2.8)
Other unallocated manufacturing costs	(7.6)	(15.4)
Other unallocated operating expenses	(1.9)	(2.1)
Operating income	$ 80.7	$ 36.3

	Six Months Ended	
	June 30, 2006	July 1, 2005
Operating income for reportable segments	$ 159.3	$ 101.8
Unallocated amounts:		
Restructuring, asset impairments and other, net	(3.3)	(3.9)
Other unallocated manufacturing costs	(20.3)	(25.2)
Other unallocated operating expenses	(2.1)	(4.1)
Operating income	$ 133.6	$ 68.6

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 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 and are summarized as follows (in millions):

	Quarter Ended	
	June 30, 2006	July 1, 2005
United States	$ 91.5	$ 70.3
The Other Americas	1.0	0.9
United Kingdom	56.1	49.9
The Other Europe	—	0.1
China	138.3	103.2
Singapore	41.5	33.8
The Other Asia/Pacific	46.9	44.6
Total Revenues	$ 375.3	$ 302.8

	Six Months Ended	
	June 30, 2006	July 1, 2005
United States	$167.8	$148.4
The Other Americas	1.9	2.1
United Kingdom	111.2	106.6
The Other Europe	—	0.1
China	261.0	188.0
Singapore	77.8	66.8
The Other Asia/Pacific	89.6	93.2
Total Revenues	$709.3	$605.2

	Quarter Ended		Six Months Ended	
	June 30, 2006	July 1, 2005	June 30, 2006	July 1, 2005
Power Management and Standard Analog	$ 110.9	$ 89.3	$ 212.2	$ 181.5
MOS Power Devices	68.1	57.7	130.0	109.0
High Frequency Clock and Data Management	23.6	19.4	43.1	38.2
Standard Components	172.7	136.4	324.0	276.5
Total Revenues	$ 375.3	$ 302.8	$ 709.3	$ 605.2

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

	June 30, 2006	December 31, 2005
China	$ 106.6	$ 110.6
United States	173.3	77.1
Europe	88.9	85.6
Malaysia	89.2	74.3
Japan	70.4	64.3
The Other Asia/Pacific	35.8	25.7
The Other Americas	3.2	0.9
	$ 567.4	$ 438.5

Sales to the Company's three largest customers accounted for approximately 12%, 9% and 8% of the Company's revenue during the first six months of 2006 and 12%, 8% and 8% during the quarter ended June 30, 2006.

Sales to the Company's three largest customers accounted for approximately 12%, 9%, and 9% of the Company's revenue during the first six months of 2005 and 13%, 9% and 9% during the quarter ended July 1, 2005.

Generally, approximately 60% of revenues from the Company's largest three customers related to the Integrated Power Group and approximately 40% of revenues related to the Analog Products Group.

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 22, 2006. 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 risk, uncertainties and other factors. Actual results could differ materially because of certain factors discussed below or elsewhere in this Form 10-Q.

Executive Overview

This section 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 8% during 2006 through 2009. These are projections and may not be indicative of actual results.

Business and Company Overview

We classify our products broadly as power and data management semiconductors and standard semiconductor components. We design, manufacture and market an extensive portfolio of semiconductor components that addresses the design needs of sophisticated electronic systems and products. Our power management semiconductor components control, convert, protect and monitor the supply of power to the different elements within a wide variety of electronic devices. Our data management semiconductor components provide high-performance clock management and data flow management for precision computing and communications systems. Our standard semiconductor components serve as "building block" components within virtually all electronic devices. These various products fall into the logic, analog and discrete categories used by WSTS.

We serve a broad base of end-user markets, including computing, automotive electronics, consumer electronics, industrial electronics, wireless communications and networking. 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.

We have four main product lines: power management and standard analog devices, metal oxide semiconductor ("MOS") power devices, high frequency clock and data management devices and standard components. 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 30,500 products and we shipped approximately 15.2 billion units in the first six months of 2006 as compared to approximately 13.0 billion units in the first six months of 2005. 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.

Our reportable segments, under generally accepted accounting principles, are aligned internally as the Integrated Power Group and the Analog Products Group. In general, the power management and standard analog product line as well as the high frequency clock and data management product line are aligned under the Analog Products Group, while the MOS power devices product line and the standard components product line are aligned under the Integrated Power Group. Our discussion of customers, trends and competitive conditions can generally be aligned accordingly. Our standard logic product unit, however, whose results are included in the Analog Products

Group segment, is part of our standard components product line. The standard logic product unit had revenues of approximately $33.3 million and $65.4 million for the quarter and six months ended June 30, 2006, respectively, and revenues of approximately $24.9 million and $47.0 million for the quarter and six months ended July 1, 2005, respectively. In instances where the characteristics of the standard components product line are significantly impacted by the standard logic product unit, these impacts are addressed separately herein.

In May 2006, we announced a change in our organizational structure from a product-based to a market-based organization by aligning our businesses to specific customers and market segments; however, we will not begin managing the business and evaluating operating results under this new structuring until the third quarter of 2006. Beginning in the third quarter of 2006, our operating segment disclosures will reflect the realignment of our reporting segments, which will be applied retrospectively in those financial statements.

We have approximately 182 direct customers worldwide, and we also service approximately 235 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 Apple, Hewlett Packard, Microsoft, Intel, Motorola, Seagate, Siemens and Sony; (2) electronic manufacturing service providers, such as Flextronics, Jabil and Solectron; 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, Texas, Oregon, China, the Czech Republic, Korea, and France, and we currently operate manufacturing facilities in Arizona, Oregon, China, the Czech Republic, Japan, Malaysia, the Philippines, and Slovakia. We ceased manufacturing operations at our Rhode Island manufacturing facility in the second quarter of 2005 and exited the facility in the fourth quarter of 2005. The Rhode Island manufacturing facility is currently being marketed for sale. In the second quarter of 2005, we announced the transfer of wafer fabrication manufacturing operations from our front-end fabrication facility in Malaysia to Arizona. Due to the current increase in demand from our customers, we have decided to keep the wafer fabrication portion of the Malaysian site open and will evaluate the continued operation of this facility over the next several quarters. We also plan to sell certain unused portions of our property at our corporate headquarters in Arizona and use some of the proceeds from the sale to upgrade portions of our corporate headquarters. We will maintain our headquarters offices and existing manufacturing facilities on the portions of the property that are not for sale.

On May 15, 2006, we, through our principal domestic operating subsidiary, SCI LLC, purchased LSI Logic Corporation's ("LSI") Gresham, Oregon wafer fabrication facility, including real property, tangible personal property, certain intangible assets, other specified manufacturing equipment and related information. The assets purchased include an approximately 83 acre campus with an estimated 500,000 square feet of building space of which approximately 98,000 square feet is clean room. We made offers of employment and hired substantially all of LSI's manufacturing and engineering employees working at the Gresham facility. At the closing of the transaction, we also entered into several ancillary agreements including, but not limited to, a wafer supply and test agreement, intellectual property license agreement, transition services agreement and facility use agreement. The aggregate purchase price for the acquired assets was $106.5, which included $1.5 million in transaction related costs, plus an additional $1.1 million of certain net assets and liabilities that were assumed by SCI LLC when the purchase was finalized on May 15, 2006. We incurred approximately $1.5 million in legal, accounting and appraisal fees related to the transaction, which, with the purchase price of $105.0 million, were allocated to the assets purchased based on their relative fair values. See Note 6 "Asset Acquisition" for further discussion.

The Gresham wafer facility is aligned internally under our Integrated Products Group operating segment and the standard components line. The purchase of the Gresham wafer facility significantly enhances our internal manufacturing capabilities. With the completion of this transaction, we have gained process development engineers, operational expertise and process development know-how to help enable us to develop a larger mix of high volume, low cost, high-performance submicron analog and digital power products down to the 0.18 micron level, with toolset capabilities down to the 0.13 micron level in the future.

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.

During the second quarter of 2006, we experienced improvements in pricing for our products while end market demand showed signs of moderation. We enjoyed growth in bookings during the second quarter with the book to bill ratio above one for the fifth consecutive quarter. We expect pricing trends during the rest of 2006 to be more of a factor of the specific supply and demand environment for a given device and on average for prices to be flat from the second quarter of 2006. Foundry revenues from the acquisition of LSI's Gresham, Oregon wafer fabrication facility totaled $12.5 million during the second quarter of 2006. We have a minimum purchase agreement with LSI for foundry services that obligates them to purchase an estimated $198.8 million of foundry services from us through May 2008.

New Product Innovation

As a result of the success of our research and development initiatives, excluding the introduction of lead-free products, we introduced 133 new products in 2005 and an additional 80 new products in the first six months of 2006. Our new product development efforts continue to be focused on building solutions in power management that appeal to customers in focused market segments and across multiple high growth applications. In light of the recent 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 analog, standard component, MOS power and clock and data management 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

Since the fourth quarter of 2000, we have been implementing 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.

Our 2004 profitability enhancement program includes the following:

- The phase out of our manufacturing operations in East Greenwich, Rhode Island, which was announced in December 2003, and our assembly and test operations in the Czech Republic, which was announced in November 2003. We began to realize the full benefit of savings from this program by the end of the fourth quarter of 2005, when the closure of our operations in East Greenwich was completed with all manufacturing equipment decommissioned and removed. During the fourth quarter of 2005, we successfully completed the work related to the decommissioning of the manufacturing building, which is currently being marketed for sale. We expect to incur marginal operating expenses in 2006 to maintain the building until the sale is completed. Overall, we expect the full cost savings from these activities will produce at least $20 million to $25 million of annual cost savings which began in first quarter of 2006.

- In the second quarter of 2004, we evaluated our operations in the Czech Republic and determined certain overhead functions were no longer necessary as a result of our previously announced transfer of our back-end manufacturing lines in Roznov to Malaysia and the Philippines. Following the reduction of such overhead functions, we realized approximately $7.7 million of actual cost savings in 2005.
- In the first quarter of 2004, we entered into a five-year agreement with respect to the outsourcing of information technology infrastructure. As part of the agreement, we sold certain system software modules, resulting in a loss on disposal of assets of $12.0 million. As a result of these actions, starting in the second quarter of 2004, we began to realize approximately $4.0 million of annualized cost savings that reduces our general and administrative expenses due to reduced depreciation expense.

More recently, in the second quarter of 2005, we announced our plan to transfer wafer fabrication operations from our facility in Malaysia to our facility in Arizona by the end of 2006, which would have eliminated approximately 80 jobs. However, due to the recently increased demand and increased backlog for products sourced out of the Malaysia and Arizona wafer fabrication operations and our long range plans, we no longer foresee transferring these operations in the near future, and consequently the cost savings that had been expected from the transfer are expected to be more than offset by incremental margin from the increased demand.

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:

- consolidation of manufacturing sites to improve economies of scale;
- transfer of production to lower cost regions;
- increase in die manufacturing capacity in a cost-effective manner by moving production from 4” to 6” wafers and increasing the number of die per square inch;
- reduction of the number of new product platforms and process flows; and
- focusing production on profitable product families.

Debt Reduction and Financing Activities

Since our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. During 2002 and 2003, we engaged in several debt refinancing transactions, which extended a portion of our debt maturities. Some of the transactions that extended our debt maturities also resulted in an increase in our overall interest expense and others lowered our overall interest expense. In connection with these transactions, we amended our senior bank facilities to, among other things, make our financial covenants less restrictive on the whole.

In the second half of 2005 we reduced our interest costs by issuing 1.875% convertible senior subordinated notes and using the proceeds from the issuance, along with cash on hand, to repay our junior subordinated note, which carried a significantly higher interest rate than the convertible senior subordinated notes. In November 2005, our outstanding Series A Cumulative Convertible Redeemable Preferred Stock beneficially owned by an affiliate of the Texas Pacific Group (“TPG”) was converted into common stock, which eliminated the accrual of preferred stock dividends. Additionally, in December 2004 and also in February 2006 we refinanced the term loans under our senior bank facilities to reduce the interest rate on the senior bank facilities.

In April 2006 we completed a public offering of 11.2 million shares (which includes 0.7 million shares issued as over-allotments) of our common stock issued approximately at a price of $7.00 per share. The net proceeds of $75.2 million from this offering were used to partially fund the purchase of LSI’s Gresham, Oregon wafer fabrication facility, which had a total purchase price of $105 million.

In June 2006, we commenced an offer to exchange all of our zero coupon convertible senior subordinated notes due 2024 for new notes with a net share settlement feature. The exchange expired on July 19, 2006, and 99.8% of the $260.0 million principal amount of the old notes were tendered and subsequently exchanged.

The details of each of these financing events are outlined in the following sections. Also, see "Liquidity and Capital Resources" elsewhere in this report Note 10 "Common Stock" of the notes to our unaudited consolidated financial statements included elsewhere in this report.

Outlook

Based upon booking trends, backlog levels and estimated turns levels, we anticipate that revenues will be approximately $405 to $415 million in the third quarter of 2006 as compared to revenues of $313.6 million in the third quarter of 2005 and revenues of $375.3 million in the second quarter of 2006. Backlog levels at the beginning of the third quarter of 2006 were up from backlog levels at the beginning of the second quarter of 2006, and represent well over 90 percent of our anticipated third quarter 2006 revenues. We expect average selling prices for the third quarter of 2006 will be approximately flat as compared to the second quarter of 2006. Gross margins in the third quarter of 2006 are expected to decline to approximately 38%, primarily due to an increase in foundry service revenue, which carries lower margins. Beginning in the first quarter of 2006, we were required to expense stock based compensation in accordance with the adoption of Statement of Financial Accounting Standards No. 123(R) "Share Based Payment". We currently expect this expense to be approximately $2.5 million in the third quarter of 2006.

For the third quarter of 2006, we expect selling and marketing and general and administrative expenses at approximately 10% to 11% of revenues and research and development expenses at approximately 7% of revenues. We anticipate that net interest expense will be approximately $11.5 million for the third quarter of 2006. For the third quarter of 2006, we expect cash capital expenditures of approximately $50 million.

Results of Operations

Quarter Ended June 30, 2006 Compared to Quarter Ended July 1, 2005

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 30, 2006 and July 1, 2005. The amounts in the following table are in millions:

	Quarter Ended		Dollar Change
	June 30, 2006	July 1, 2005	
Revenues	$ 375.3	$ 302.8	$ 72.5
Cost of revenues	222.1	204.3	17.8
Gross profit	153.2	98.5	54.7
Operating expenses:			
Research and development	25.2	23.0	2.2
Selling and marketing	22.7	18.9	3.8
General and administrative	21.3	17.5	3.8
Restructuring, asset impairments and other, net	3.3	2.8	0.5
Total operating expenses	72.5	62.2	10.3
Operating income	80.7	36.3	44.4
Other income (expenses), net:			
Interest expense	(13.1)	(15.4)	2.3
Interest income	2.8	1.2	1.6
Other	(0.2)	(0.6)	0.4
Other income (expenses), net	(10.5)	(14.8)	4.3
Income before income taxes and minority interests	70.2	21.5	48.7
Income tax provision	(1.8)	(2.0)	0.2
Minority interests	(0.9)	(1.0)	0.1
Net income	$ 67.5	$ 18.5	$ 49.0

Revenues

Revenues were $375.3 million and $302.8 million during the quarter ended June 30, 2006 and the quarter ended July 1, 2005, respectively. The increase from the second quarter of 2005 to the second quarter of 2006 was primarily due to increased product volume and foundry revenue resulting from the acquisition of LSI's Gresham, Oregon wafer fabrication facility, partially offset by a decrease in average selling prices by approximately 6.7%. For more information on our asset acquisition see Note 6 "Asset Acquisition" of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q. As indicated in the table below, the increase was most pronounced in the standard components and Power Management and Standard Analog product lines. Our average selling prices in the second quarter of 2006 relative to the first quarter of 2006 increased by approximately 1.0%. The revenues by product line are as follows (dollars in millions):

	Quarter Ended June 30, 2006	As a % Revenue (1)	Quarter Ended July 1, 2005	As a % Revenue (1)	Dollar Change	% Change
Power Management and Standard Analog	$ 110.9	29.5%	$ 89.3	29.5%	$ 21.6	24.2%
MOS Power Devices	68.1	18.1%	57.7	19.1%	10.4	18.0%
High Frequency Clock and Data Management	23.6	6.3%	19.4	6.4%	4.2	21.6%
Standard Components (2)	172.7	46.0%	136.4	45.0%	36.3	26.6%
Total Revenues	$ 375.3		$ 302.8		$ 72.5	

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

(2) Revenues for the standard components product line includes $33.3 million and $24.9 million of revenues from the standard logic product unit for the quarters ended June 30, 2006 and July 1, 2005, respectively.

Revenues from our power management and standard analog product line increased $21.6 million, or 24.2%, in the second quarter of 2006 as compared to the second quarter of 2005. The increase can be attributed to an increase in revenues from the computing, consumer electronics and wireless communications end markets.

Revenues from MOS power devices increased $10.4 million, or 18.0%, in the second quarter of 2006 as compared to the second quarter of 2005. The increase can be primarily attributed to an increase in revenues from the consumer electronics end market.

Revenues from high frequency clock and data management products increased $4.2 million, or 21.6%, in the second quarter of 2006 as compared to the second quarter of 2005. The increase can be attributed to an increase in revenues from the networking end market.

Revenues from standard components increased $36.3 million, or 26.6%, in the second quarter of 2006 as compared to the second quarter of 2005. This product line consists of many products that are available from numerous competitors in the marketplace and is thus heavily influenced by pricing pressures and general market conditions. The increase in revenue can be primarily attributed to an increase in market demands mainly in wireless communications, industrial electronics and consumer electronics markets. Additionally, revenue growth in the standard components product line is also due to growth associated with foundry revenue from the recent acquisition of LSI's Gresham, Oregon wafer fabrication facility of approximately $12.5 million.

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

	Quarter Ended June 30, 2006	As a % Revenue	Quarter Ended July 1, 2005	As a % Revenue
Americas	$ 92.5	25%	$ 71.2	24%
Asia Pacific	226.7	60%	181.6	60%
Europe	56.1	15%	50.0	17%
Total	$ 375.3	100%	$ 302.8	100%

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices. In recent years, there has been a trend toward moving such manufacturing activities to lower cost regions, particularly in Asia. Our shift in revenues by geographic area reflects this trend.

Sales to our three largest customers accounted for approximately 12%, 8% and 8% of our revenue during the second quarter 2006 and 13%, 9% and 9% during the second quarter 2005. Generally, approximately 60% of revenues from our largest three customers related to the Integrated Power Group and approximately 40% of revenues related to the Analog Products Group.

Approximately 16% of our revenues for the second quarter of 2006 are attributable to our various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation ("Delphi"), one of our automotive customers, and certain of Delphi's U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the quarter ended June 30, 2006, our revenues from Delphi accounted for less than 3% of our total annual revenues and approximately $5.4 million of our receivables due from Delphi as of June 30, 2006 are subject to collection pending resolution of the reorganization proceedings. We had reserved $1.6 million against our receivable from Delphi as of June 30, 2006.

Gross Profit

Our gross profit was $153.2 million in the second quarter of 2006 compared to $98.5 million in the second quarter of 2005. As a percentage of revenues, our gross profit was 40.8% in the second quarter of 2006 as compared to 32.5% in the second quarter of 2005. Gross profit increased during the second quarter of 2006 as compared to the second quarter of 2005 primarily due to increased sales volume, cost savings from our profitability enhancement programs and a reduction in depreciation expense of approximately $7.5 million resulting from a change in our estimate of the useful life of our machinery and equipment assets, partially offset by a decrease in average selling prices.

See Note 4 "Change in Accounting Estimate" of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Operating Expenses

Research and development expenses were $25.2 million in the second quarter of 2006 compared to $23.0 million in the second quarter of 2005, representing an increase of $2.2 million, or 9.6%. Research and development expenses represented 6.7% and 7.6% of revenues in the second quarter of 2006 and the second quarter of 2005, respectively. The $2.2 million increase in research and development is primarily attributable to increased headcount of our research and development personnel primarily as a result of the acquisition of LSI's Gresham, Oregon wafer fabrication facility, increased stock compensation expense as a result of our adoption of Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R") during the first quarter of 2006 and an increase in employee performance bonuses as a result of our achievement of certain financial goals.

Selling and marketing expenses were $22.7 million in the second quarter of 2006 compared to $18.9 million in the second quarter of 2005, representing an increase of $3.8 million, or 20.1%. Selling and marketing expenses represented 6.0% and 6.2% of revenues in the second quarter of 2006 and the second quarter of 2005, respectively. The $3.8 million increase in selling and marketing expenses is primarily attributable to an increase in employee performance bonuses as a result of our achievement of certain financial goals, increased headcount of selling and marketing personnel primarily in our Asia Pacific locations due to our increased revenue concentration in this region and increased stock compensation expense as a result of our adoption of SFAS No. 123R during the first quarter of 2006.

General and administrative expenses were $21.3 million in the second quarter of 2006 compared to $17.5 million in the second quarter of 2005, representing an increase of $3.8 million, or 21.7%. General and administrative expenses represented 5.7% and 5.8% of revenues in the second quarter of 2006 and the second quarter of 2005, respectively. The $3.8 million increase in general and administrative expenses is primarily

attributable to increased stock compensation expense as a result of our adoption of SFAS No. 123R during the first quarter of 2006, increased costs for external services, including legal and consulting services, and an increase in employee performance bonuses as a result of our achievement of certain financial goals.

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

Restructuring, asset impairments and other, net were $3.3 million in the second quarter of 2006. During the second quarter of 2006, we recorded $4.7 million of asset impairments partially offset $1.4 million of net adjustments to reserves.

In June 2006, we recorded $4.7 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. Over the past three years we have capitalized software development costs associated with modifications and enhancements to several business process and related systems. The $4.7 million of asset impairments resulted from the fact that we currently have 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 second quarter of 2006 was triggered by a reallocation of corporate resources from these projects to other projects due to changes in corporate priorities, which include new objectives that arose from the purchase of the Gresham, Oregon wafer fabrication facility in May 2006. The amount of the asset impairment charge taken in June 2006, of $4.7 million, was determined based on the costs that had previously been capitalized related to the projects that have been abandoned.

The $1.4 million of net adjustments include $1.2 million reversal of employee separation charges reserve related to the previously planned transfer of wafer fabrication manufacturing operations from Malaysia to the United States. Due to the current increase in demand from customers, we decided to keep the wafer fabrication portion of this site open and the transfer to the United States was cancelled. Accordingly the previously established $1.2 million reserve balance was reversed in June 2006.

The remaining $0.2 million of net adjustments include $0.1 million reversal of employee separation charges reserve for general worldwide work force reductions of approximately 60 employees announced in the second quarter of 2005, and $0.1 million reversal of employee separation charges for employees whose terminations under the December 2002 restructuring program were rescinded.

During the second quarter of 2005, we recorded $3.1 million of employee cash separation charges and $0.1 million of exit costs offset in part by $0.4 million of net adjustments to reserves. The $3.1 million of employee separation charges includes $1.9 million related to a general worldwide work force reduction of approximately 60 employees. All terminations and associated severance payments related to these charges are expected to be completed during the third quarter of 2006. The remaining $1.2 million of employee separation charges is related to the termination of 80 employees in Malaysia resulting from the transfer of wafer fabrication manufacturing operations from Malaysia to Arizona.

The $0.1 million of exit costs related to certain exit activities that were completed in connection with the December 2003 announcement of the shutdown of manufacturing operations in East Greenwich, Rhode Island. The $0.4 million of net adjustments include $0.3 million of adjustments to the employee separation charges reserve related to the shutdown of our Grenoble, France design center that was announced in March 2005 and $0.1 million of adjustments to the employee separation charges reserve related to the shutdown of our assembly and test operations in Roznov, Czech Republic that was announced in November 2003.

For more information on our restructuring activity see Note 7 “Restructuring, Asset Impairments and Other, Net” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Interest Expense

Interest expense was $13.1 million in the second quarter of 2006 compared to $15.4 million in the second quarter of 2005. The decrease in interest expense was primarily a result of interest savings during the second quarter of 2006 that resulted from the repayment of the 10% junior subordinated note that occurred during the second half of 2005, which was partially financed with proceeds from the issuance of 1.875% convertible senior subordinated notes due 2025. Our average month-end long-term debt balance (including current maturities) in the second quarter of 2006 was $1,060.9 million with a weighted average interest rate of 4.9% compared to $1,144.7 million and a weighted average interest rate of 5.4% in the second quarter of 2005. See also "Liquidity and Capital Resources—Key Financing Events" for a description of our refinancing activities.

Provision for Income Taxes

Provision for income taxes was $1.8 million in the second quarter of 2006 compared to $2.0 million in the second quarter of 2005. The provision for the second quarter of 2006 included $2.3 million for income and withholding taxes of certain of our foreign operations, partially offset by the reversal of $0.5 million of previously accrued income taxes for anticipated audit issues. The provision for the second quarter of 2005 related to income and withholding taxes of certain of our foreign operations. Due to our continuing domestic tax losses and tax rate differentials in our foreign subsidiaries, our effective tax rate is lower than the U.S. statutory federal income tax rate. We continue to maintain a full valuation allowance on all of our domestic deferred tax assets.

Reportable Segments

As previously discussed, our reportable segments are aligned internally as the Integrated Power Group and the Analog Products Group. These segments represent our view of the company and inform how we evaluate the progress of its major components. Information about our reportable segments for the quarters ended June 30, 2006 and July 1, 2005 are as follows, in millions:

	Integrated Power Group	Analog Products Group	Total
Quarter ended June 30, 2006:			
Revenues from external customers	$ 207.5	$ 167.8	$375.3
Segment operating income	$ 46.6	$ 46.9	$ 93.5
Quarter ended July 1, 2005:			
Revenues from external customers	$ 169.2	$ 133.6	$302.8
Segment operating income	$ 31.4	$ 25.2	$ 56.6

Depreciation and amortization expense is included in segment operating income. Reconciliations of segment information to consolidated financial statements (in millions):

	Quarter ended	
	June 30, 2006	July 1, 2005
Operating income for reportable segments	$ 93.5	$ 56.6
Unallocated amounts:		
Restructuring, asset impairments and other, net	(3.3)	(2.8)
Other unallocated manufacturing costs	(7.6)	(15.4)
Other unallocated operating expenses	(1.9)	(2.1)
Operating income	$ 80.7	$ 36.3

Six Months Ended June 30, 2006 Compared to Six Months Ended July 1, 2005

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 30, 2006 and July 1, 2005, respectively. The amounts in the following table are in millions:

	Six Months Ended		Dollar Change
	June 30, 2006	July 1, 2005	
Revenues	$ 709.3	$ 605.2	$104.1
Cost of revenues	438.4	410.5	27.9
Gross profit	270.9	194.7	76.2
Operating expenses:			
Research and development	48.8	46.1	2.7
Selling and marketing	43.7	38.2	5.5
General and administrative	41.5	37.9	3.6
Restructuring, asset impairments and other, net	3.3	3.9	(0.6)
Total operating expenses	137.3	126.1	11.2
Operating income	133.6	68.6	65.0
Other income (expenses), net:			
Interest expense	(26.1)	(30.0)	3.9
Interest income	4.8	2.1	2.7
Other	0.8	(1.6)	2.4
Other income (expenses), net	(20.5)	(29.5)	9.0
Income before income taxes and minority interests	113.1	39.1	74.0
Income tax provision	(3.8)	(3.8)	—
Minority interests	(1.4)	(2.0)	0.6
Net income	$ 107.9	$ 33.3	$ 74.6

Revenues

Revenues were $709.3 million in the first six months of 2006 as compared to $605.2 million in the first six months of 2005. The increase from the first six months of 2005 to the first six months of 2006 was primarily due to increased product volume plus added foundry revenue from the purchase of LSI's Gresham, Oregon wafer fabrication facility, partially offset by a decrease in average selling prices by approximately 8.3%. As indicated in the table below, the increase was most pronounced in the standard components and power management and standard analog lines. The revenues by product line are as follows (dollars in millions):

	Six Months Ended June 30, 2006	As a % Revenue	Six Months Ended July 1, 2005	As a % Revenue	Dollar Change	% Change
Power Management and Standard Analog	$ 212.3	29.9%	$ 181.5	30.0%	$ 30.8	17.0%
MOS Power Devices	130.0	18.3%	109.0	18.0%	21.0	19.3%
High Frequency Clock and Data Management	43.1	6.1%	38.2	6.3%	4.9	12.8%
Standard Components (1)	323.9	45.7%	276.5	45.7%	47.4	17.1%
Total Revenues	$ 709.3		$ 605.2		$104.1	

(1) Revenues for the standard components product line includes $65.4 million and $47.0 million of revenues from the standard logic product unit for the six months ended June 30, 2006 and July 1, 2005, respectively.

Revenues from our power management and standard analog product line increased $30.8 million, or 17.0%, in the first six months of 2006 as compared to the first six months of 2005. The increase can be attributed to an increase in revenues from the consumer electronics, wireless communications and computing end markets.

Revenues from MOS power devices increased $21.0 million, or 19.3%, in the first six months of 2006 as compared to the first six months of 2005. The increase can be primarily attributed to an increase in revenues from the consumer electronics end market.

Revenues from high frequency clock and data management products increased $4.9 million, or 12.8%, in the first six months of 2006 as compared to the first six months of 2005. The increase can be attributed to an increase in revenues from the networking end market.

Revenues from standard components increased $47.4 million, or 17.1%, in the first six months of 2006 as compared to the first six months of 2005. This product line consists of many products that are available from numerous competitors in the marketplace and is thus heavily influenced by pricing pressures and general market conditions. The increase in revenue can be primarily attributed to an increase in revenues from the wireless communications and consumer electronics markets. Additionally, revenue growth in the standard components product line is also due to growth associated with foundry revenue from the recent acquisition of LSI's Gresham, Oregon wafer fabrication facility of approximately $12.5 million.

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

	Six Months Ended June 30, 2006	As a % Revenue	Six Months Ended July 1, 2005	As a % Revenue
Americas	$ 169.7	24%	$ 150.5	25%
Asia Pacific	428.4	60%	348.0	58%
Europe	111.2	16%	106.7	18%
Total	$ 709.3	100%	$ 605.2	100%

A majority of our end customers, served directly or through distribution channels, are manufacturers of electronic devices. In recent years, there has been a trend toward moving such manufacturing activities to lower cost regions, particularly in Asia. Our shift in revenues by geographic area reflects this trend.

Sales to our three largest customers accounted for approximately 12%, 9% and 8% of our revenue during the first six months of 2006 and 12%, 9% and 9% during the first six months of 2005. Generally, approximately 60% of revenues from our largest three customers related to the Integrated Power Group and approximately 40% of revenues related to the Analog Products Group.

Approximately 17% of our revenues for the six months ended June 30, 2006 are attributable to our various automotive customers. Certain of these automotive customers have been experiencing a downturn in their business, in part due to labor difficulties. On October 8, 2005, Delphi Corporation ("Delphi"), one of our automotive customers, and certain of Delphi's U.S. subsidiaries commenced reorganization proceedings under Chapter 11 of the U.S. Federal Bankruptcy Code. During the six months ended June 30, 2006, our revenues from Delphi accounted for less than 3% of our total annual revenues and approximately $5.4 million of our receivables due from Delphi as of June 30, 2006 are subject to collection pending resolution of the reorganization proceedings. We had reserved $1.6 million against our receivable from Delphi as of June 30, 2006.

Gross Profit

Our gross profit was $270.9 million in the first six months of 2006 compared to $194.7 million in the first six months of 2005. As a percentage of revenues, our gross profit was 38.2% in the first six months of 2006 as compared to 32.2% in the first six months of 2005. Gross profit increased during the first six months of 2006 as

compared to the first six months of 2005 primarily due to increased sales volume, cost savings from our profitability enhancement programs and a reduction in depreciation expense of approximately $7.5 million resulting from a change in our estimate of the useful life of our machinery and equipment assets, partially offset by a decrease in average selling prices.

See Note 4 “Change in Accounting Estimate” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Operating Expenses

Research and development expenses were $48.8 million in the first six months of 2006 compared to $46.1 million in the first six months of 2005, representing an increase of $2.7 million, or 5.9%. Research and development expenses represented 6.9% and 7.6% of revenues in the first six months of 2006 and the first six months of 2005, respectively. The $2.7 million increase in research and development is primarily attributable to increased headcount of our research and development personnel primarily as a result of the acquisition of LSI’s Gresham Oregon wafer fabrication facility, an increase in employee performance bonuses as a result of our achievement of certain financial goals and increased stock compensation expense as a result of our adoption of Statement of Financial Accounting Standards No. 123R (“SFAS No. 123R”) during the first quarter of 2006, partially offset by the absence of software application costs associated with the implementation of cost management technology that occurred during the first quarter of 2005.

Selling and marketing expenses were $43.7 million in the first six months of 2006 compared to $38.2 million in the first six months of 2005, representing an increase of $5.5 million, or 14.4%. Selling and marketing expenses represented 6.2% and 6.3% of revenues in the first six months of 2006 and the first six months of 2005, respectively. The $5.5 million increase in selling and marketing expenses is primarily attributable to an increase in employee performance bonuses as a result of our achievement of certain financial goals, increased headcount of selling and marketing personnel primarily in our Asia Pacific locations due to our increased revenue concentration in this region and increased stock compensation expense as a result of our adoption of SFAS No. 123R during the first quarter of 2006.

General and administrative expenses were $41.5 million in the first six months of 2006 compared to $37.9 million in the first six months of 2005, representing an increase of $3.6 million, or 9.5%. General and administrative expenses represented 5.9% and 6.3% of revenues in the first six months of 2006 and the first six months of 2005, respectively. The $3.3 million increase in general and administrative expenses is primarily attributable to increased stock compensation expense as a result of our adoption of SFAS No. 123R during the first quarter of 2006, an increase in employee performance bonuses as a result of our achievement of certain financial goals and increased costs for external services, including legal and consulting services, partially offset by decreased costs of information technology outsourcing.

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

Restructuring, asset impairments and other, net were $3.3 million in the first six months of 2006. During the first six months of 2006, we recorded $4.7 million of asset impairments partially offset $1.4 million of net adjustments to reserves.

In June 2006, we recorded $4.7 million of asset impairments included in restructuring, asset impairments and other, net on the statement of operations. Over the past three years we have capitalized software development costs associated with modifications and enhancements to several business process and related systems. The $4.7 million of asset impairments resulted from the fact that we currently have 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 second quarter of 2006 was triggered by a reallocation of corporate resources from these projects to other projects due to changes in corporate priorities,

which include new objectives that arose from the purchase of the Gresham, Oregon wafer fabrication facility in May 2006. The amount of the asset impairment charge taken in June 2006, of $4.7 million, was determined based on the costs that had previously been capitalized related to the projects that have been abandoned.

The $1.4 million of net adjustments include $1.2 million reversal of employee separation charges reserve related to the previously planned transfer of wafer fabrication manufacturing operations from Malaysia to the United States. Due to the current increase in demand from customers, we decided to keep the wafer fabrication portion of this site open and the transfer to the United States was cancelled and the remaining $1.2 million reserve balance was reversed in June 2006.

The remaining $0.2 million of net adjustments include $0.1 million reversal of employee separation charges reserve for general worldwide work force reductions of approximately 60 employees announced in the second quarter of 2005, and $0.1 million reversal of employee separation charges for employees whose terminations under the December 2002 restructuring program were rescinded.

Restructuring, asset impairments and other, net were $3.9 million in the first six months of 2005. During the first six months of 2005, we recorded $4.4 million of employee separation charges and $0.5 million of exit costs, offset in part by $0.5 million of gain on sale of fixed assets and $0.5 million of net adjustments to reserves.

The $4.4 million of employee separation charges includes $1.9 million related to a general worldwide work force reduction of approximately 60 employees, $1.3 million related to the transfer of certain design center functions from Grenoble, France to Toulouse, France, and $1.2 million of employee separation charges related to the termination of 80 employees in Malaysia resulting from the transfer of wafer fabrication manufacturing operations from Malaysia to Arizona.

The $0.5 million of exit costs were the result of $0.3 million of cash exit costs related to the transfer of certain design center functions from Grenoble, France to Toulouse, France and $0.2 million for certain exit activities that were completed in connection with the December 2003 announcement of the shutdown of manufacturing operations in East Greenwich, Rhode Island. These costs were offset by a gain on sale of land at East Greenwich of $0.5 million.

The $0.5 million of net adjustments include $0.3 million of adjustments to the employee separation charges reserve related to the shutdown of our Grenoble, France design center that was announced in March 2005, $0.1 million of adjustments to the employee separation charges reserve related to the shutdown of our assembly and test operations in Roznov, Czech Republic that was announced in November 2003, and the reversal of a $0.1 million reserve for cash exit costs related to the June 2002 restructuring activity that are no longer expected to be incurred.

For more information on our restructuring activity see Note 7 “Restructuring, Asset Impairments and Other, Net” of the notes to our unaudited consolidated financial statements included elsewhere in this Form 10-Q.

Interest Expense

Interest expense was $26.1 million for the first six months of 2006 compared to $30.0 million first six months of 2005. The decrease in interest expense was primarily a result of interest savings during the first quarter of 2006 that resulted from the repayment of the 10% junior subordinated note that occurred during the second half of 2005, which was partially financed with proceeds from the issuance of 1.875% convertible senior subordinated notes due 2025. Our average month-end long-term debt balance (including current maturities) in the first six months of 2006 was $1,063.0 million with a weighted average interest rate of 4.9% compared to $1,146.8 million and a weighted average interest rate of 5.2% in the first six months of 2005. See also “Liquidity and Capital Resources—Key Financing Events” for a description of our refinancing activities.

Provision for Income Taxes

Provision for income taxes was $3.8 million in the first six months of 2006 compared to $3.8 million in the first six months of 2005. The provision for the first six months of 2006 included $4.3 million for income and withholding taxes of certain of our foreign operations, partially offset by the reversal of $0.5 million of previously accrued income taxes for anticipated audit issues. The provision for the first six months of 2005 related to income and withholding taxes of certain of our foreign operations. Due to our continuing domestic tax losses and tax rate differentials in our foreign subsidiaries, our effective tax rate is lower than the U.S. statutory federal income tax rate. We continue to maintain a full valuation allowance on all of our domestic deferred tax assets.

Reportable Segments

As previously discussed, our reportable segments are aligned internally as the Integrated Power Group and the Analog Products Group. These segments represent our view of the company and inform how we evaluate the progress of its major components. Information about our reportable segments for the six months ended June 30, 2006 and July 1, 2005 are as follows, (in millions):

	Integrated Power Group	Analog Products Group	Total
Six months ended June 30, 2006:			
Revenues from external customers	$ 388.6	$ 320.7	$709.3
Segment operating income	$ 77.4	$ 81.9	$159.3
Six months ended July 1, 2005			
Revenues from external customers	$ 338.5	$ 266.7	$605.2
Segment operating income	$ 55.6	$ 46.2	$101.8

Depreciation and amortization expense is included in segment operating income. Reconciliations of segment information to consolidated financial statements (in millions):

	Six Months Ended	
	June 30, 2006	July 1, 2005
Operating income for reportable segments	$ 159.3	$ 101.8
Unallocated amounts:		
Restructuring, asset impairments and other, net	(3.3)	(3.9)
Other unallocated manufacturing costs	(20.3)	(25.2)
Other unallocated operating expenses	(2.1)	(4.1)
Operating income	$ 133.6	$ 68.6

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.

Cash Requirements

Commercial Commitments, Contractual Obligations 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 30, 2006 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						
Commercial commitments	**Total**	**Remainder of 2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**
Standby letter of credit	$ 10.2	$ 8.9	$ 1.3	$ —	$ —	$ —	$ —

	Payments Due by Period						
Contractual obligations	**Total**	**Remainder of 2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**
Long-term debt	$1,061.0	$ 37.7	$20.9	$14.2	$ 624.8	$ 264.2	$ 99.2
Operating leases (1) (2)	14.3	3.6	3.8	2.6	1.8	0.7	1.8
Other long-term obligations—pension plans	12.6	3.2	3.0	3.0	3.0	0.4	—
Purchase obligations (1):							
Capital purchase obligations (3)	29.4	23.7	5.6	0.1	—	—	—
Foundry and inventory purchase obligations	60.1	47.0	3.2	3.1	2.9	1.2	2.7
Mainframe support	6.4	2.2	2.7	0.8	0.7	—	—
Information technology and communication services	14.9	1.8	10.5	2.5	0.1	—	—
Other	3.3	2.1	0.7	0.4	0.1	—	—
Total contractual obligations	$1,202.0	$ 121.3	$50.4	$26.7	$ 633.4	$ 266.5	$ 103.7

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

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

(3) Capital purchase obligations do not include the final $15.0 payment for the Gresham, Oregon wafer fabrication facility, which is included in accrued expenses as of June 30, 2006 and is expected to be paid during the third quarter of 2006.

Our long-term debt includes $635.7 million under senior bank facilities amortizing through 2009 and potentially until 2011 under certain conditions, $260.0 million of zero coupon convertible senior subordinated notes due 2024, $95.0 million under our 1.875% convertible senior subordinated notes due 2025, $14.2 million under a note payable to a Japanese bank amortizing through 2010, $14.0 million under a loan facility with a Chinese bank amortizing through 2007, $32.0 million under a loan facility with another Chinese bank amortizing through 2013 and $10.1 million of capital lease obligations. See Note 9 “Long-Term Debt” of the notes to our unaudited consolidated financial statements included elsewhere in this report.

In connection with the purchase, we entered into a wafer supply and test service agreement with LSI pursuant to which (1) we will manufacture and provide semiconductor wafer products to LSI, and (2) we will provide certain sort test, processing engineering, quality assurance and other similar and related services that LSI may request. LSI is obligated to purchase $198.8 million of wafer products and related services (such as wafer testing and sorting services) from us during the first two years under the agreement.

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

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 8 “Balance Sheet Information” of the notes to our unaudited consolidated financial statements included elsewhere in this report.)

Our balance of cash and cash equivalents was $294.7 million at June 30, 2006. We believe that our cash flows from operations, coupled with existing cash and cash equivalents will be adequate to fund our operating and capital needs over the next 12 months. Our senior bank facilities include a $25.0 million revolving facility. Letters of credit totaling $10.2 million were outstanding under the revolving facility at June 30, 2006. We amended our primary foreign exchange hedging agreement to provide 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.

In connection with the acquisition of LSI’s Gresham, Oregon wafer fabrication facility, we entered into various agreements with LSI. Pursuant to certain of these agreements, we have agreed to indemnify LSI 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 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 report 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 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, 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 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 30, 2007. 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:

EBITDA

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) is a key indicator that management uses to evaluate our operating performance and cash flows. While EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles and should not be considered as an indicator of operating performance or an alternative to cash flow as a measure of liquidity, we believe this measure is useful to investors to assess our ability to meet our future debt service, capital expenditure and working capital requirements. This calculation may differ in method of calculation from similarly titled measures used by other companies. The following table sets forth our EBITDA for the three months ended

June 30, 2006, March 31, 2006, and July 1, 2005, and the six months ended June 30, 2006 and July 1, 2005, with a reconciliation to cash flows from operations, the most directly comparable financial measure under generally accepted accounting principles (in millions):

	Quarter Ended			Six Months Ended	
	June 30 2006	March 31, 2006	July 1 2005	June 30 2006	July 1, 2006
Net income	$ 67.5	$ 40.4	$ 18.5	$107.9	$ 33.3
Plus:					
Depreciation and amortization	17.2	23.5	24.8	40.7	49.9
Interest expense	13.1	13.0	15.4	26.1	30.0
Interest income	(2.8)	(2.0)	(1.2)	(4.8)	(2.1)
Income tax provision	1.8	2.0	2.0	3.8	3.8
EBITDA	96.8	76.9	59.5	173.7	114.9
Increase (decrease):					
Interest expense	(13.1)	(13.0)	(15.4)	(26.1)	(30.0)
Interest income	2.8	2.0	1.2	4.8	2.1
Income tax provision	(1.8)	(2.0)	(2.0)	(3.8)	(3.8)
Loss (gain) on sale or disposal of fixed assets	(0.2)	—	0.5	(0.2)	—
Amortization of debt issuance costs	0.7	0.6	—	1.3	0.9
Provision for excess inventories	6.6	2.5	0.4	9.1	6.2
Non-cash impairment of property, plant, and equipment	4.7	—	—	4.7	—
Cumulative effect of accounting change	—	—	3.1		—
Non-cash interest on junior subordinated note payable	—	—	3.9	—	7.8
Deferred income taxes	(0.5)	0.4	(2.4)	(0.1)	(4.6)
Stock compensation expense	2.4	1.9	—	4.3	—
Other	0.8	(1.0)	1.2	(0.2)	1.9
Changes in operating assets and liabilities	(18.0)	(17.8)	12.0	(35.8)	2.8
Net cash provided by operating activities	$ 81.2	$ 50.5	$ 62.0	$131.7	$ 98.2

Covenants contained in our senior secured credit agreement require us to maintain a trailing 12-month minimum adjusted EBITDA of $140.0 million. Adjusted EBITDA, as defined under the documents for our senior bank facilities totaled approximately $347.2 million for the 12 months ended June 30, 2006. This adjusted EBITDA computation excludes certain restructuring and other charges and contains other differences from the EBITDA as defined above. Therefore, EBITDA in the above table is not representative of the adjusted EBITDA used to determine our debt covenant compliance.

If we were not in compliance with the covenants contained in our senior secured credit agreement, including the adjusted EBITDA maintenance covenant, the lenders under our senior secured credit agreement could cause all outstanding amounts to be due and payable immediately. If we were unable to repay, refinance or restructure that indebtedness, the lenders 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.

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 $278.8 million at June 30, 2006, and has fluctuated between $211.9 million and $300.3 million over the last eight quarter-ends.

The components of our working capital at June 30, 2006 and December 31, 2005 are set forth below (in millions), followed by explanations for changes between December 31, 2005 and June 30, 2006 for cash and cash equivalents and any other changes greater than $5 million:

	June 30, 2006	December 31, 2005	Change
Current assets			
Cash and cash equivalents	$294.7	$ 233.3	$ 61.4
Receivables, net	200.5	160.2	40.3
Inventories, net	195.1	169.5	25.6
Other current assets	38.5	29.9	8.6
Deferred income taxes	5.8	7.4	(1.6)
Total current assets	734.6	600.3	134.3
Current liabilities			
Accounts payable	$146.3	$ 137.3	$ 9.0
Accrued expenses	124.5	83.9	40.6
Income taxes payable	6.4	5.5	0.9
Accrued interest	0.5	0.6	(0.1)
Deferred income on sales to distributors	126.9	97.1	29.8
Current portion of long-term debt	51.2	73.9	(22.7)
Total current liabilities	455.8	398.3	57.5
Net working capital	$278.8	$ 202.0	$ 76.8

The increase in cash and cash equivalents of $61.4 million in the second quarter of 2006 was attributable to cash flow from operations of approximately $131.7 million and net cash provided by financing activities of $72.4 million, offset by cash used in investing activities of $143.3 million, primarily as a result of payments for capital expenditures, including the purchase of LSI’s Gresham, Oregan wafer fabrication facility during the second quarter of 2006.

The increase of $40.3 million in accounts receivable is the result of increased sales in the last two months of the second quarter of 2006 as compared to the last two months of the fourth quarter in 2005.

The increase of $25.6 million in inventory is primarily attributable to inventory produced at our Gresham wafer fabrication facility and increased production ahead of expected demand increases. Based on the outlook for the third quarter of 2006, we anticipate relatively flat inventory levels at the end of the third quarter of 2006.

The increase of $8.6 million in other current assets is primarily a result of a $2.8 million increase in tool and die, a $1.7 million other tax receivables and a $4.1 million increase in prepaid expenses. The increase was partially offset by a decrease of $1.2 million in value added tax receivables.

The increase of $9.0 million in accounts payable was mainly a result of increased purchases of inventory combined with the timing of payments at the respective period ends.

The increase in accrued expenses of $40.6 million was primarily attributable to a $15.0 million accrual for the final payment for the purchase of LSI’s Gresham, Oregon wafer fabrication facility, a $7.7 million increase in our sales reserves, a $7.5 million increase in our accrual for employee performance bonuses and a $4.1 million increase in accrued vacation as well as increases in other accruals.

The increase in deferred income is attributable to increased inventory levels at distributors and higher prices as compared to December 31, 2005 with inventories at distributors up from 9.8 weeks as of December 31, 2005 to 11.1 weeks as of June 30, 2006.

The decrease in the current portion of long-term debt relates to the timing of payments under our debt instruments including payments under the free cash flow provision of our senior bank facilities that were not required and were classified as long-term debt during 2006. See Note 9 “Long-Term Debt” of the notes to our unaudited consolidated financial statements included elsewhere in this report.

Long-Term Assets and Liabilities

Our long-term assets consist primarily of property, plant and equipment, intangible assets, 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. Accordingly, we reduced our capital expenditures during 2005. We do not expect that our capital expenditure reductions will have a negative impact on our ability to service our customers, as we believe that near-term access to additional manufacturing capacity, should it be required, could be readily obtained on reasonable terms through manufacturing agreements with third parties. Capital expenditures were $135.1 million during the first six months of 2006 compared to $22.0 million during the first six months of 2005. We will continue to look for opportunities to make similar strategic purchases in the future as we plan to invest a total of approximately $225 million, including capital lease obligations, in 2006 for additional capacity, which includes the purchase of LSI’s Gresham, Oregon wafer fabrication facility. Although our debt covenants contain certain restrictions that limit our amount of future capital expenditures, we do not believe that these restrictions will have a significant impact on our future operating performance.

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

Overview

Since we became an independent company as a result of our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. Our long-term debt includes significant amounts outstanding under our senior bank facilities, which contain an EBITDA (as defined for such facilities maintenance) covenant with which we were in compliance as of June 30, 2006.

During the second half of 2003, we began undertaking measures to reduce our long-term debt, reduce related interest costs and, in some cases, extend a portion of our debt maturities to continue to provide us additional operating flexibility. These measures continued into 2005 and 2006, as described below:

November 2005 Conversion of Redeemable Preferred Stock

On November 10, 2005, we entered into a Conversion and Termination Agreement with an affiliate of TPG to convert our outstanding convertible redeemable preferred stock held by such affiliate, with a book value of $138.7 million as of September 30, 2005, into 49,364,080 shares of our common stock. We issued an additional 3,949,126 shares of common stock to the TPG affiliate to induce the conversion of the preferred stock. Following the conversion, none of the authorized shares of the preferred stock remained outstanding. In connection with the conversion and inducement, we recognized a $20.4 million charge that reduced net income applicable to common stock for a deemed dividend from the issuance of inducement shares issued upon conversion.

December 2005 Repayment of 10% Junior Subordinated Notes and Issuance of 1.875% Convertible Senior Subordinated Notes

As part of the recapitalization, Semiconductor Components Industries, LLC (“SCI LLC”), our primary domestic operating subsidiary, issued a $91.0 million junior subordinated note due 2011. During periods it was outstanding, the note bore interest at an annual rate of 10.0%, compounded semi-annually and payable at maturity. The note was

junior in right of payment to all senior debt. In November 2005, we repaid $66.4 million of the junior subordinated note with cash on hand, which reduced the outstanding principal amount to approximately $91.0 million.

In order to finance the repayment of the remaining principal amount of the junior subordinated note, in December 2005 we issued $95.0 million of 1.875% convertible senior subordinated notes due 2025. We received net proceeds of approximately $91.0 million from the sale of the notes after deducting commissions and estimated offering expenses of $4.0 million (of which $0.5 million remained unpaid as of June 30, 2006), which were capitalized as debt issuance costs and are being amortized using the effective interest method through the first put date of December 15, 2012. The notes bear interest at the rate of 1.875% per year from the date of issuance. Interest on the notes is payable on June 15 and December 15 of each year, beginning on June 15, 2006. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by certain of our existing and future subsidiaries.

The notes are convertible by holders into cash and shares of our common stock at a conversion rate of 142.8571 shares of common stock per $1,000 principal amount of notes (subject to adjustment in certain events), which is equivalent to an initial conversion price of approximately $7.00 per share of common stock. We will settle conversion of all notes validly tendered for conversion in cash and shares of our common stock, if applicable, subject to our right to pay the share amount in additional cash. Holders may convert their notes under the following circumstances: (i) during the five business-day period immediately following any five consecutive trading-day period in which the trading price per $1,000 principal amount of notes for each day of such period was less than 103% of the product of the closing sale price of our common stock and the conversion rate; (ii) upon occurrence of the specified transactions described in the indenture relating to the notes; or (iii) after June 15, 2012. As of June 30, 2006, none of these circumstances had occurred.

The notes will mature on December 15, 2025. Beginning December 20, 2012, we may redeem the notes, in whole or in part, for cash at a price of 100% of the principal amount plus accrued and unpaid interest to, but excluding, the redemption date. If a holder elects to convert its notes in connection with the occurrence of specified fundamental changes that occur prior to December 15, 2012, the holder will be entitled to receive, in addition to cash and shares of common stock equal to the conversion rate, an additional number of shares of common stock, in each case as described in the indenture. Holders may require us to repurchase the notes for cash on December 15 of 2012, 2015 and 2020 at a repurchase price equal to 100% of the principal amount of such notes, plus accrued and unpaid interest to but excluding the repurchase date. Upon the occurrence of certain corporate events, each holder may require us to purchase all or a portion of such holder’s notes for cash at a price equal to the principal amount of such notes, plus accrued and unpaid interest to but excluding, the repurchase date.

The notes are our unsecured obligations, will be subordinated in right of payment to all of our existing and future senior indebtedness, will rank *pari passu* in right of payment with all of our existing and future senior subordinated indebtedness and will be senior in right of payment to all our existing and future subordinated obligations. The notes also will be effectively subordinated to any of our and our subsidiaries’ secured indebtedness to the extent of the value of the assets securing such indebtedness.

February 2006 Amendment to Senior Bank Facilities

In February 2006, we refinanced the term loans under our senior bank facilities to reduce the interest rate from LIBOR plus 2.75% to LIBOR plus 2.50%. The amended and restated credit agreement also provides for a step-down provision that reduced the interest rate applicable to the term loans to LIBOR plus 2.25% effective as of February 28, 2006 since we maintained a specified credit rating and meet the specified leverage ratio test that first applied based on the 2005 results.

March 2006 Amendment to Senior Bank Facilities

The credit agreement relating to our senior bank facilities includes a provision requiring an annual calculation of cash flow (as defined) and the application of a portion of that cash flow as a prepayment of loans outstanding under the agreement. In March 2006, we obtained an amendment of this provision that requires

prepayment only at the election of the debt holders. As a result of this amendment, only $0.1 million of the $26.0 million classified as a current maturity as of December 31, 2005 was paid at the election of the debt holders during the first quarter of 2006. Therefore, the remaining $25.9 million was reclassified to long-term during the first quarter of 2006.

April 2006 Equity Offering

On April 6, 2006, we completed a public offering of our common stock registered pursuant to a shelf registration statement originally filed with the Securities and Exchange Commission on January 2, 2004. In connection with this offering, we issued approximately 11.2 million shares (which includes 0.7 million shares issued to cover over-allotments) at a price of $7.00 per share. The net proceeds from this offering received by us were $75.2 million after deducting the underwriting discount of $1.6 million ($0.14 per share) and offering expenses of $1.3 million (of which $1.2 million remained unpaid as of June 30, 2006). The net proceeds were primarily used to partially fund the purchase of LSI's Gresham, Oregon wafer fabrication facility during the second quarter of 2006, which had a total purchase price of $105 million.

July 2006 Exchange Offer for Zero Coupon Convertible Senior Subordinated Notes due 2024

In June 2006, the Company commenced an offer to exchange all of its then outstanding $260.0 million principal amount of zero coupon convertible senior subordinated notes due 2024 for a like principal amount of the new notes plus an exchange fee of $2.50 per $1,000 principal amount of their old notes validly tendered and accepted for exchange. The new notes contain a net share settlement feature, which will reduce the amount of shares included in diluted net income per share beginning in the third quarter of 2006. On July 21, 2006, we issued $259.5 million aggregate principal amount of new notes that are convertible into cash up to the par value, at a conversion rate of 101.8849 shares per $1,000 principle under certain circumstances. The excess of fair value over par value is convertible into stock. The exchange expired on July 19, 2006, and 99.8% of the aggregate principal amount of the old notes were tendered and subsequently exchanged.

Debt Instruments, Guarantees and Related Covenants

The following table presents the components of long-term debt as of June 30, 2006 and December 31, 2005 (dollars in millions):

	June 30, 2006 Balance	December 31, 2005 Balance
Senior Bank Facilities:		
Term Loan, interest payable quarterly at 7.7500% and 7.1875%, respectively	$ 635.7	$ 639.1
Revolver	—	—
	635.7	639.1
Zero Coupon Convertible Senior Subordinated Notes due 2024	260.0	260.0
1.875% Convertible Senior Subordinated Notes due 2025	95.0	95.0
2.25% Note payable to Japanese bank due 2005 through 2010, interest payable semi-annually	14.2	15.4
Loan with a Chinese bank due 2006 through 2007, interest payable quarterly at 6.730% and 5.867%, respectively	14.0	14.0
Loan with a Chinese bank due 2006 through 2013, interest payable semiannually at 7.030% and 6.167%, respectively	32.0	34.4
Capital lease obligations	10.1	9.1
	1,061.0	1,067.0
Less: Current maturities	(51.2)	(73.9)
	$1,009.8	$ 993.1

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.

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 and our 1.875% convertible senior subordinated notes due 2025. Our other domestic subsidiaries 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 30, 2006, 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 and 1.875% convertible senior subordinated notes due 2025. 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 30, 2007.

The credit agreement relating to our senior bank facilities includes a provision requiring an annual calculation of cash flow (as defined) and the application of a portion of that cash flow as a prepayment of loans outstanding under the agreement. Included in the current portion of long-term debt as of December 31, 2005 was approximately $26.0 million, which is the amount that was expected to be paid during the first quarter of 2006 under this provision. As previously discussed, during the first quarter of 2006 we obtained an amendment of this provision that requires prepayment only at the election of the debt holders, and only $0.1 million was elected to be paid by the debt holders during the first quarter of 2006, so $25.9 million was reclassified to long-term liabilities during the first quarter of 2006.

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;
- make capital expenditures;
- 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.

In addition, our senior bank facilities require that we maintain or achieve a minimum consolidated adjusted EBITDA, as defined 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 on a timely basis to allow us to maintain our manufacturing efficiency and support our platforms of new products.

Accounting Changes and Changes in Accounting Estimates

Effective December 31, 2005 we adopted FASB Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations—An Interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 clarifies that the term *conditional asset retirement obligation* as used in FASB Statement No. 143 "Accounting for Asset Retirement Obligations" ("Statement 143") refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. As a result of the adoption of FIN 47, we recorded a $2.9 net charge for the cumulative effect of accounting change in 2005.

Effective January 1, 2006, we adopted SFAS No. 123R, which requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award. As a result of the adoption of SFAS No. 123R, our results of operations include $2.4 million and $4.3 million of stock compensation expense during the quarter and six months ended June 30, 2006.

Total estimated share-based compensation expense, related to our employee stock options and employee stock purchase plan, recognized for the quarter and six months ended June 30, 2006 was comprised as follows (in millions, except per share data):

	Quarter Ended June 30, 2006	Six Months Ended June 30, 2006
Cost of revenues	$ 0.6	$ 0.9
Research and development	0.4	0.8
Selling and marketing	0.5	1.0
General and administrative	0.8	1.6
Share-based compensation expense before income taxes	2.3	4.3
Related income tax benefits (1)	—	—
Share-based compensation expense, net of taxes	$ 2.3	$ 4.3
Net share-based compensation expense, per common share:		
Basic	$ 0.01	$ 0.01
Diluted	$ 0.01	$ 0.01

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

We recorded $0.3 million and $1.3 million in share-based compensation expense during the quarter and six months ended June 30, 2006, respectively related to share-based awards granted during the quarter and six months ended June 30, 2006. This included expense related to the Employee Stock Purchase Plan of $0.2 million and $0.3 million during the quarter and six months ended June 30, 2006, respectively, and $0.1 million of expense related to awards of restricted stock units. The remaining expense related to share-based awards granted prior to December 31, 2005.

Also, see “Results of Operations” elsewhere in this report and Note 3 “Significant Accounting Policies” and Note 11 “Employee Stock Benefit Plans” of the notes to our unaudited consolidated financial statements included elsewhere in this report.

During the quarter ended June 30, 2006, we commissioned a study of the manufacturing equipment at its other worldwide locations, which included an assessment of the estimated useful lives of those assets. The results of the study supported an estimated useful life of 10 years. We, factoring in the results of this study, have revised the estimated useful lives of our manufacturing equipment for depreciation purposes to 10 years as of the beginning of the second quarter of 2006 and on a prospective basis. The effect of this change was to decrease depreciation expense by $7.5 million, increase net income by $7.5 million and increase both basic and diluted net income per share by $0.02 for the quarter and six months ended June 30, 2006.

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 recognize revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the customer net of provisions for related sales returns and allowances. 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. Although payment terms vary, most distributor agreements require payment within 30 days.

Sales returns and allowances are estimated based on historical experience. Given that our revenues consist of a high volume of relatively similar products, our actual returns and allowances do not fluctuate significantly from period to period, and our returns and allowances provisions have historically been reasonably accurate.

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

Inventories. We carry our inventories at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market and record provisions for slow moving inventories based upon a regular analysis of inventory on hand compared to historical and projected end user demand. Projected end user demand is generally based on sales during the prior 12 months. These provisions can influence our results from operations. For example, when demand falls for a given part, all or a portion of the related inventory is reserved, impacting our cost of 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.

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 and 2005 and continuing into 2006, 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.

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.

Share-Based Payments. Prior to adopting the provisions of SFAS No. 123R, we recorded estimated compensation expense for employee stock options based upon their intrinsic value on the date of grant pursuant to Accounting Principles Board Opinion 25 (APB 25), “Accounting for Stock Issued to Employees” and provided the required pro forma disclosures of FASB Statement No. 123, “Accounting for Stock-Based Compensation”

(“SFAS No. 123”). Because we established the exercise price based on the fair market value of the Company’s stock at the date of grant, the stock options had no intrinsic value upon grant, and therefore no estimated expense was recorded prior to adopting SFAS No. 123R.

We adopted the provisions of SFAS No. 123R on January 1, 2006, the first day of our fiscal year 2006, using a modified prospective application, which provides for certain changes to the method for recognizing share-based compensation. Under the modified prospective application, prior periods are not revised for comparative purposes. The provisions of SFAS No. 123R apply to new awards and to awards that are outstanding with future service periods on the effective date and subsequently modified or cancelled. Estimated compensation expense for awards outstanding with future service periods at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123.

The fair value of each option grant in 2005 and thereafter is estimated on the date of grant using a lattice based option valuation model. In past years, we used the Black-Scholes option-pricing model to calculate the fair value of its options. The lattice model uses: 1) an implied volatility curve derived from Heston’s stochastic volatility model and calibrated using a regression analysis instead of a single volatility assumption as used in the Black-Scholes model; 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 each option grant. The estimates and assumptions used by management in conjunction with the lattice model significantly impact the resulting fair value of options granted.

At June 30, 2006, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was $20.6 million, which is expected to be recognized over a weighted average period of 2.9 years.

On November 16, 2005, we accelerated the vesting of certain unvested and “out-of-the-money” stock options outstanding under the company’s stock plans. The acceleration of vesting applied to all unvested options that had an exercise price per share of $7.00 or higher, with the exception of options granted to directors, certain officers and employees with options granted under the French provisions in our 2000 Stock Incentive Plan. As a result of the acceleration, options to purchase approximately 2.5 million shares of our common stock became exercisable immediately. The weighted average exercise price of the affected options was $7.04 per share. In making the decision to accelerate these options, the Board of Directors believed it was in the best interest of the stockholders to reduce the future earnings impact resulting from the planned adoption of SFAS 123R in the first quarter of 2006, and the resulting impact that this may have on our market value.

This acceleration of these options that were outstanding on November 16, 2005 reduce future expenses upon the adoption of FAS 123R on a pre-tax basis as follows:

	Reduction in Non-cash Expense (millions)
2006	$ 3.6
2007	3.6
2008	0.3
Total	$ 7.5

Recent Accounting Pronouncements

In September 2005, the Emerging Issues Task Force reached consensus on EITF Issue No. 04-13, “Accounting for Purchases and Sales of Inventory with the Same Counterparty” (“Issue No. 04-13). In certain situations, a company may enter into nonmonetary transactions to sell inventory to another company in the same

line of business from which it also purchases inventory. Under Issue No. 04-13, in general, an entity is required to treat sales and purchases of inventory between the entity and the same counterparty as one transaction for purposes of applying APB Opinion No. 29, "Accounting for Nonmonetary Transactions" when such transactions are entered into in contemplation of each other. When such transactions are legally contingent on each other, they are considered to have been entered into in contemplation of each other. The EITF also agreed on other factors that should be considered in determining whether transactions have been entered into in contemplation of each other. Issue No. 04-13 will be effective for all new arrangements entered into in reporting periods beginning after March 15, 2006. The Company's adoption of the provisions of Issue No. 04-13 did not impact its financial condition or results of operations.

In February of 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Instruments—An Amendment of FASB Statements No. 133 and No. 144" ("SFAS No. 155"). SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also clarifies which interest-only strips and principal-only strips are not subject to the requirements of FASB Statement No. 133, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. Furthermore, SFAS No. 155 clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and it amends FASB Statement No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year beginning after September 15, 2006. Our adoption of the provisions of SFAS No. 155 is not expected to impact our financial condition or results of operations.

In June 2006, the FASB ratified EITF Issue No. 05-01 "Accounting for the Conversion of an Instrument That Becomes Convertible upon the Issuer's Exercise of a Call Option" ("Issue No. 05-01"). Issue No. 05-01 requires the conversion accounting model to be used when equity instruments are issued to settle an instrument that becomes convertible upon the issuer's exercise of a call option if, at issuance, the debt instrument contains a substantive conversion feature. The issuance of shares to settle the debt pursuant to the original terms of the instrument should be afforded conversion treatment. However, if the instrument does not contain a substantive conversion feature at issuance, then the issuance of equity securities to settle the instrument should be recognized as a debt extinguishment. A conversion feature is considered substantive if, at issuance, it is *reasonably possible* that the conversion feature will affect the manner of the debt instrument's settlement. Issue No. 05-01 is effective for all conversions or settlements that result from exercise of call options occurring in interim or annual periods beginning after June 28, 2006. While Issue No. 05-01 requires entities to apply these rules to instruments issued prior to the effective date, it does not require entities to evaluate and document whether the conversion feature was substantive at the time of issuance unless or until the conversion feature is exercised. We are currently evaluating the impact of Issue No. 05-01 to our financial position and results of operations.

In June 2006, the FASB ratified EITF Issue No. 06-03 "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)" ("Issue No. 06-03"). Under Issue No. 06-03, a company must disclose its accounting policy regarding the gross or net presentation of certain taxes. If taxes included in gross revenues are significant, a company must disclose the amount of such taxes for each period for which an income statement is presented (i.e., both interim and annual periods). Taxes within the scope of this Issue are those that are imposed on and concurrent with a specific revenue-producing transaction. Taxes assessed on an entity's activities over a period of time, such as gross receipts taxes, are not within the scope of the issue. Issue No. 06-03 is effective for the first annual or interim reporting period beginning after December 15, 2006. We are currently evaluating the impact of Issue No. 06-03 to our financial position and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48 "Accounting For Uncertain Tax Positions" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's

financial statements in accordance with FASB Statement No. 109 “Accounting for Income Taxes”. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of FIN 48 to our financial position and results of operations.

Trends, Risks and Uncertainties

This Quarterly Report on 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 are forward-looking statements, particularly statements about our plans, strategies and prospects under the heading “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. In this Form 10-Q, forward-looking information relates to third quarter 2006 revenues, gross margins and average selling prices, research and development expenses as a percentage of revenues, and sales and marketing and general and administrative expenses as a percentage of revenues, net interest expense, capital expenditures, and similar matters. All forward-looking statements in this Form 10-Q are made based on our current expectations and estimates, which 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 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 profit 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, 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 from time to time in our Securities and Exchange Commission reports. See in particular our Form 10-K for the fiscal year ended December 31, 2005 under Item 1A. “Risk Factors” and similar disclosures in subsequently filed reports with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information.

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 30, 2006, our long-term debt (including current maturities) totaled $1,061.0 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $379.3 million. We do have interest rate exposure with respect to the $681.7 million outstanding balance on our variable interest rate debt; however, we have entered into interest rate swaps to reduce this exposure. As of June 30, 2006, we had interest rate swaps covering $265.0 million of 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 $2.1 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.

On January 9, 2003, we amended our primary foreign exchange hedging agreement to provide 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 Securities Exchange Act of 1934 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.

Change in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended June 30, 2006 that 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 are currently 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 matter described in the next paragraphs, will have a material adverse 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 this action be unfavorable, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

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. 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 the Company, to a single federal district 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 Court issued its ruling on the motions to dismiss filed by the underwriter and issuer defendants. In that ruling the Court granted in part and denied in part those motions. As to the claims brought against us under the antifraud provisions of the securities laws, the Court dismissed all of these claims with prejudice, and refused to allow plaintiffs the opportunity to re-plead these claims. As to the claims brought under the registration provisions of the securities laws, which do not require that intent to defraud be pleaded, the Court denied the motion to dismiss these claims as to us and as to substantially all of the other issuer defendants as well. The Court also denied the underwriter defendants' motion to dismiss in all respects.

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

The proposed settlement contemplates that any amounts necessary to fund the settlement or settlement-related expenses would come from participating issuers' directors and officers' liability insurance policy proceeds, as opposed to funds of the participating issuer defendants themselves. A participating issuer defendant could be required to contribute to the costs of the settlement if that issuer's insurance coverage were insufficient to pay that issuer's allocable share of the settlement costs. We expect that our insurance proceeds will be sufficient for these purposes and that we will not otherwise be required to contribute to the proposed settlement.

Consummation of the proposed settlement is conditioned upon obtaining approval by the Court. On September 1, 2005, the Court preliminarily approved the proposed settlement and directed that notice of the terms of the proposed settlement be provided to class members. Thereafter, the Court held a fairness hearing on April 24, 2006, at which objections to the proposed settlement were heard. After the fairness hearing, the Court took under advisement whether to grant final approval to the proposed settlement.

If the proposed settlement described above is not consummated, we intend to continue to defend the litigation vigorously. While we can make no promises or guarantees as to the outcome of these proceedings, we believe that the final result of these actions will have no material effect on our consolidated financial condition, results of operations or cash flows.

Item 1A. Risk Factors

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including, but not limited to (i) those described under Item 1A "Risk Factors" in our Form 10-K for 2005, (ii) those additional risk factors set forth in our subsequently filed Form 10-Qs and similar disclosures, and (iii) other parts of this Form 10-Q, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

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

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable.

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 2006 annual meeting of stockholders held on May 17, 2006.

Election of Directors. Each of the following three persons was elected as a Class I Director, to hold office for a three-year term expiring at the 2009 annual meeting or until his successor has been duly elected and qualified, or until the earlier of his resignation, removal or disqualification:

Nominee	For	Withheld
Curtis J. Crawford	288,866,363	2,913,354
Richard W. Boyce	251,049,773	40,729,944
Robert H. Smith	289,061,690	2,718,027

Independent Registered Public Accounting Firm. The appointment of PricewaterhouseCoopers LLP, as our independent registered public accounting firm, for 2006 was ratified by the following votes:

For:	291,329,271
Against:	398,207
Abstain:	51,739

Amendment to Certificate of Incorporation to Increase Authorized Shares of Common Stock. A proposed amendment to our amended and restated certificate of incorporation to increase the authorized shares of common stock, par value $0.01 per share, from 500,000,000 to 600,000,000 was approved by the following votes:

For:	289,790,712
Against:	1,766,770
Abstain:	222,235

2007 Executive Incentive Plan. A proposal to approve the 2007 Executive Incentive Plan as a bonus plan for certain executives was approved by the following votes:

For:	266,683,712
Against:	3,473,589
Abstain:	323,525
Broker Non Vote:	21,298,891

Item 5. Other Information

Pre-Approval of Non-Audit Services of PricewaterhouseCoopers LLP

During the period for which this Form 10-Q is filed through the date of its filing, the Audit Committee of our Board of Directors ("Committee") pre-approved certain non-audit services to be provided by our independent registered public accounting firm, PricewaterhouseCoopers LLP. During meetings held on April 26, 2006 and May 17, 2006, the Committee pre-approved tax related services.

Item 6. Exhibits

Exhibit No.	Description
Exhibit 3.1 (a)	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation, as further amended through May 30, 2006
Exhibit 10.1	Restricted Stock Units Award Agreement for ON Semiconductor 2000 Stock Incentive Plan (form of agreement for certain officers)
Exhibit 10.2	Wafer Supply and Test Services Agreement between Semiconductor Components Industries, LLC (ON Semiconductor Corporation's primary operating subsidiary) and LSI Logic Corporation as of May 15, 2006 (incorporated by reference from Exhibit 2.1 of first quarter of 2006 Form 10-Q file with the Securities and Exchange Commission on or about April 27, 2006)(1)
Exhibit 10.3	Joint Venture Contract for Leshan-Phoenix Semiconductor Company Limited, amended and restated on April 20, 2006, between SCG (China) Holding Corporation (a subsidiary of ON Semiconductor Corporation) and Leshan Radio Company Ltd.
Exhibit 10.4	Amendment dated as of March 3, 2006, to the Amended and Restated Credit Agreement dated as of August 4, 1999, as amended and restated as of February 6, 2006 (as amended, supplemented or otherwise modified from time to time), among ON Semiconductor Corporation, Semiconductor Industries, LLC, the specified lenders, and JPMorgan Chase Bank, N.A. (as administrative agent).
Exhibit 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
Exhibit 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
Exhibit 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

(1) Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

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: July 28, 2006

ON SEMICONDUCTOR CORPORATION

By: /s/ DONALD COLVIN

Donald Colvin
Executive Vice President and Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer of the Registrant)

EXHIBIT INDEX

Exhibit No.	Exhibit Description
3.1 (a)	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation, as further amended through May 30, 2006
10.1	Restricted Stock Units Award Agreement for ON Semiconductor 2000 Stock Incentive Plan (form of agreement for certain officers)
10.2	Wafer Supply and Test Services Agreement between Semiconductor Components Industries, LLC (ON Semiconductor Corporation's primary operating subsidiary) and LSI Logic Corporation as of May 15, 2006 (incorporated by reference from Exhibit 2.1 of first quarter of 2006 Form 10-Q file with the Securities and Exchange Commission on or about April 27, 2006) (1)
10.3	Joint Venture Contract for Leshan-Phoenix Semiconductor Company Limited, amended and restated on April 20, 2006, between SCG (China) Holding Corporation (a subsidiary of ON Semiconductor Corporation) and Leshan Radio Company Ltd.
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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
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
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

(1) Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

**AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF SCG HOLDING CORPORATION**

SCG Holding Corporation (hereinafter referred to as the “Corporation”), organized and existing under and by virtue of the Delaware General Corporation Law, does hereby certify as follows:

1. The Corporation filed its original Certificate of Incorporation (hereinafter referred to as the “Certificate of Incorporation”) with the Secretary of State of Delaware on June 18, 1992, and the name of the Corporation at that time was Motorola Energy Systems, Inc.

2. By unanimous written consent of the Board of Directors of the Corporation, a resolution was duly adopted, pursuant to Sections 242 and 245 of the Delaware General Corporation Law, setting forth the Amended and Restated Certificate of Incorporation of the Corporation and declaring said Amended and Restated Certificate of Incorporation of the Corporation advisable. By written consent of the stockholders of the Corporation, a resolution was duly adopted, pursuant to Sections 228, 242 and 245 of the Delaware General Corporation Law, setting forth and approving such Amended and Restated Certificate of Incorporation of the Corporation.

RESOLVED: That the Certificate of Incorporation, as amended to date, be and hereby is amended and restated in its entirety as follows:

FIRST: The name of the corporation is:

SCG Holding Corporation.

SECOND: The registered office of the Corporation is to be located at 1209 Orange Street, in the City of Wilmington, in the County of New Castle, in the State of Delaware. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the Delaware General Corporation Law.

FOURTH:

(1) The aggregate number of shares which the Corporation shall have authority to issue is 300,100,000 of which 100,000 of said shares shall be par value $0.01 and shall be

designated Preferred Stock, and 300,000,000 of said shares shall be par value $0.01 per share and shall be designated Common Stock.

(2) Subject to the limitations and in the manner provided by law, shares of the Preferred Stock may be issued from time to time in series and the Board of Directors of the Corporation (hereinafter referred to as the "Board") is hereby authorized to establish and designate series of the Preferred Stock, to fix the number of shares constituting each series, and to fix the designations and the relative rights, preferences and limitations of the shares of each series and the variations in the relative rights, preferences and limitations as between series, and to increase and to decrease the number of shares constituting each series. Subject to the limitations and in the manner provided by law, the authority of the Board with respect to each series shall include but shall not be limited to the authority to determine the following:

(a) The designation of such series.

(b) The number of shares initially constituting such series.

(c) The increase and the decrease to a number not less than the number of the outstanding shares of such series, of the number of shares constituting such series theretofore fixed.

(d) The rate or rates and the times at which dividends on the shares of such series shall be paid, the form in which such dividends shall be paid or payable (which may include additional shares of capital stock of the Corporation) and whether or not such dividends shall be cumulative and, if such dividends shall be cumulative, the date or dates from and after which they shall accumulate; *provided*, *however*, that, if the stated dividends are not paid in full, the shares of all series of the Preferred Stock ranking *pari passu* shall share ratably in the

payment of dividends, including accumulations, if any, in accordance with the sums that would be payable on such shares if all dividends were declared and paid in full.

(e) Whether or not the shares of such series shall be redeemable and, if such shares shall be redeemable, the terms and conditions of such redemption, including but not limited to the date or dates upon or after which such shares shall be redeemable and the amount per share that shall be payable upon such redemption, which amount may vary under different conditions and at different redemption dates.

(f) The amount payable on the shares of such series in the event of the voluntary or involuntary liquidation, dissolution or winding up of the Corporation; *provided*, *however*, that the holders of such shares shall be entitled to be paid, or to have set apart for payment, not less than $0.01 per share before the holders of shares of the Common Stock or the holders of any other class or series of stock ranking junior to the Preferred Stock as to rights on liquidation shall be entitled to be paid any amount or to have any amount set apart for payment; and *provided further*, that, if the amounts payable on liquidation are not paid in full, the shares of all series of the Preferred Stock ranking *pari passu* shall share ratably in any distribution of assets other than by way of dividends in accordance with the sums that would be payable in such distribution if all sums payable were discharged in full. A liquidation, dissolution or winding up of the Corporation, as such terms are used in this paragraph (f), shall not be deemed to be occasioned by or to include any consolidation or merger of the Corporation with or into any other corporation or other entity or corporations or other entities or a sale, lease or conveyance of all or a part of its assets.

(g) Whether or not the shares of such series shall have voting rights, in addition to the voting rights provided by law and, if such shares shall have such voting rights, the

terms and conditions thereof, including but not limited to the right of the holders of such shares to vote as a separate class either alone or with the holders of shares of one or more other series of Preferred Stock and the right to have more than one vote per share.

(h) Whether or not a sinking fund shall be provided for the redemption of the shares of such series and, if such a sinking fund shall be provided, the terms and conditions thereof.

(i) Whether or not a purchase fund shall be provided for purchase of the shares of such series, and, if such a purchase fund shall be provided, the terms and conditions thereof.

(j) Whether or not the shares of such series shall have conversion or exchange privileges, and, if such shares shall have conversion or exchange privileges, the terms and conditions of conversion or exchange, including but not limited to any provision for the adjustment of the conversion rate or the conversion price and whether conversion or exchange can be effected solely by the Corporation or the holder.

(k) Any other relative rights, preferences and limitations.

(3) Except as otherwise provided by law or by the resolution or resolutions providing for the issuance of any series of Preferred Stock, the holders of outstanding shares of Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes, each holder of record of shares of Common Stock being entitled to one vote for each share of Common Stock standing in such holder's name on the books of the Corporation.

FIFTH: The name and address of the incorporator is as follows:

Deborah J. Burmeister
1303 East Algonquin Road
Schaumburg, Illinois 60196

SIXTH: Unless and except to the extent that the By-Laws of the Corporation shall so require, the election of directors of the Corporation need not be by written ballot.

SEVENTH: In furtherance and not in limitation of the powers conferred by law, the Board is expressly authorized and empowered to adopt, amend and repeal the By-Laws of the Corporation by a majority vote at any regular or special meeting of the Board or by written consent, subject to the power of the stockholders of the Corporation to amend or repeal any By-Law of the Corporation made by the Board. Notwithstanding any other provision of this Amended and Restated Certificate of Incorporation or the By-Laws of the Corporation (and notwithstanding that a lesser percentage may be specified by law), the provisions of Article II, Sections 1, 2 and 5, Article III, Section 1, and Article VI of the By-Laws of the Corporation may not be amended or repealed, nor may any By-Law provision inconsistent therewith be adopted, by the stockholders of the Corporation, unless such action is approved by the affirmative vote of the holders of not less than sixty-six and two thirds percent (66 2/3%) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, considered for purposes of this Article SEVENTH as a single class.

EIGHTH: The Corporation reserves the right at any time and from time to time to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Amended and Restated Certificate of

Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article EIGHTH.

Notwithstanding any other provisions of this Amended and Restated Certificate of Incorporation or the By-Laws of the Corporation (and notwithstanding that a lesser percentage may be specified by law), the provisions of this Article EIGHTH, Article SEVENTH, Article NINTH, Article TENTH, Article ELEVENTH, Article TWELFTH, Article THIRTEENTH and Article FOURTEENTH hereof may not be amended or repealed, nor may any Certificate of Incorporation provision inconsistent therewith be adopted, by the stockholders of the Corporation unless such action is approved by the affirmative vote of the holders of not less than sixty-six and two thirds percent (66 2/3%) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, considered for purposes of this Article EIGHTH as a single class.

NINTH: (1) The business and affairs of the Corporation shall be managed by or under the direction of a Board consisting of not fewer that six (6) nor more than eleven (11) directors (exclusive of directors referred to in the following paragraph), the exact number to be determined from time to time by resolution adopted by affirmative vote of a majority of such directors then in office. Upon the filing of this Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, the directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors determined by the Board pursuant to this Section (1). Class I directors shall serve for an initial term ending at the annual meeting of stockholders held in 2000, Class II directors for an initial term ending at the annual meeting of stockholders held in 2001 and Class III directors for an initial term ending at the annual meeting

of stockholders held in 2002. At each annual meeting of stockholders beginning in 2000, successors to the directors in the class whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the number of such directors and the election, term of office, filling of vacancies and other features of such directorships shall be governed by the provisions of Article FOURTH of this Amended and Restated Certificate of Incorporation and any resolution or resolutions adopted by the Board pursuant thereto, and such directors shall not be divided into classes unless expressly so provided therein.

(2) Subject to the rights of the holders of any one or more classes or series of Preferred Stock issued by the Corporation, any director, or the entire Board, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of not less than sixty-six and two thirds percent (66 2/3%) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors,

considered for purposes of this sentence as a single class. Any vacancy in the Board that results from an increase in the number of directors may be filled by a majority of the directors then in office, provided that a quorum is present, and any other vacancy may be filled only by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall hold office for the remaining term of his or her predecessor.

TENTH: No action required to be taken or that may be taken at any annual or special meeting of stockholders of the Corporation may be taken by stockholders of the Corporation except at such a meeting of stockholders.

ELEVENTH: The Corporation shall, to the full extent permitted by Section 145 of the Delaware General Corporation Law, as amended from time to time, indemnify all persons whom it may indemnify pursuant thereto.

TWELFTH: The Board shall have authority to authorize the issuance, from time to time without any vote or other action by the stockholders, of any or all shares of stock of the Corporation of any class at any time authorized, any securities convertible into or exchangeable for any such shares so authorized, and any warrant, option or right to purchase, subscribe for or otherwise acquire shares of stock of the Corporation for any such consideration and on such terms as the Board from time to time in its discretion lawfully may determine, which terms and conditions may include, without limitation, restrictions or conditions that preclude or limit the exercise, transfer or receipt thereof or that invalidate or void any such securities, warrants, options or rights; *provided*, *however*, that the consideration for the issuance of shares of stock of the Corporation having par value shall not be less than such par value. Stock so issued, for which the consideration has been paid to the Corporation, shall be fully paid stock, and the

holders of such stock shall not be liable to any further call or assessments thereon. Nothing in this Article TWELFTH shall be interpreted to limit the authority of the Board under the Delaware General Corporation Law or under any other provision of this Amended and Restated Certificate of Incorporation, to authorize the issuance of shares, warrants, options or rights or other securities or to take any other action.

THIRTEENTH: The By-Laws of the Corporation may establish procedures regulating the submission by stockholders of nominations and proposals for consideration at meetings of stockholders of the Corporation.

FOURTEENTH: The provisions of Section 203 of the Delaware General Corporation Law shall not apply to or govern the Corporation.

FIFTEENTH: Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of section 279 of Title 8 of the Delaware Code, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as consequence

of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

SIXTEENTH: The personal liability of the directors of the Corporation is hereby eliminated to the fullest extent permitted by paragraph (7) of subsection (b) of Section 102 of the General Corporation Law of the State of Delaware, as the same may be amended or supplemented.

IN WITNESS WHEREOF, this certificate has been signed by its Vice President and Assistant Secretary and its corporate seal affixed this 5th day of April, 2000.

By: /s/ GEORGE H. CAVE
Name: George H. Cave
Title: Secretary

Signed and sworn (or affirmed) to before me on this 5th day of April, 2000.

/s/ LINDA PASCALE
Linda Pascale, Notary Public

[Notary Seal]

By: /s/ DARIO SACOMANI
Name: Dario Sacomani
Title: Senior Vice President and Chief Financial Officer

Signed and sworn (or affirmed) to before me on this 5th day of April, 2000.

/s/ LINDA PASCALE
Linda Pascale, Notary Public

[Notary Seal]

CERTIFICATE OF CORRECTION FILED TO CORRECT
A CERTAIN ERROR IN THE AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION OF
SCG HOLDING CORPORATION
FILED IN THE OFFICE OF THE SECRETARY OF STATE
OF DELAWARE ON APRIL 5, 2000

SCG Holding Corporation, organized and existing under and by virtue of the Delaware General Corporation Law, does hereby certify as follows:

1. The name of the corporation is SCG Holding Corporation.

2. That the Amended and Restated Certificate of Incorporation of SCG Holding Corporation (the “Certificate of Incorporation”) was filed with the State of Delaware on April 5, 2000 and that said Certificate of Incorporation requires correction as permitted by Section 103 of the General Corporation Law of the State of Delaware.

3. The inaccuracy or defect of the Certificate of Incorporation to be corrected as follows: to amend and restate Article FOURTH, section (1).

4. Article FOURTH, section (1) of the Certificate of Incorporation is corrected to read as follows:

The aggregate number of shares which the Corporation shall have authority to issue is 300,100,000 of which 100,000 of said shares shall be par value $0.01 and shall be designated Preferred Stock, and 300,000,000 of said shares shall be par value $0.01 per share and shall be designated Common Stock.

[The remainder of this page is left intentionally blank.]

IN WITNESS WHEREOF, this certificate has been signed by its Senior Vice President and Secretary and its corporate seal affixed this 20th day of April, 2000.

By: /s/ GEORGE H. CAVE
Name: George H. Cave
Title: Secretary

Signed and sworn (or affirmed) to before me on this 20th day of April, 2000.

/s/ LINDA PASCALE
Linda Pascale, Notary Public

[Notary Seal]

By: /s/ WILLIAM GEORGE
Name: William George
Title: Senior Vice President

Signed and sworn (or affirmed) to before me on this 20th day of April, 2000.

/s/ LINDA PASCALE
Linda Pascale, Notary Public

[Notary Seal]

CERTIFICATE OF OWNERSHIP AND MERGER

MERGING

ON SEMICONDUCTOR CORPORATION

INTO

SCG HOLDING CORPORATION

(Pursuant to Section 253 of the
Delaware General Corporation Law)

The undersigned officers of SCG Holding Corporation, a corporation incorporated as Motorola Energy Systems, Inc. on June 18, 1992, pursuant to the Laws of the State of Delaware (the "Surviving Corporation") and ON Semiconductor Corporation, a Delaware corporation incorporated on June 22, 2000 (the "Subsidiary"), hereby certify that:

(1) The Surviving Corporation is the sole owner of all of the outstanding common stock of the Subsidiary.

(2) The Board of Directors of the Surviving Corporation, at a duly convened meeting held on July 19, 2000, has determined to merge the Subsidiary with and into the Surviving Corporation, and the resolutions approving such merger are as follows:

WHEREAS, the Corporation owns all of the outstanding capital stock of ON Semiconductor Corporation, a Delaware corporation (the "Subsidiary"); and

WHEREAS, the Corporation desires to merge the Subsidiary into itself and to assume the liabilities and obligations of such entity in exchange for all the estate, property, rights and privileges of the Subsidiary; and

WHEREAS, the Board of Directors of this Corporation deems it advisable and in the best interest of the Corporation to effect the merger and to subsequently change the name of this Corporation to "ON Semiconductor Corporation" on the date hereof (the "Effective Date").

NOW, THEREFORE, IT IS HEREBY RESOLVED, that this Corporation merge into itself said Subsidiary on the Effective Date pursuant to Section 253 of the General Corporation Law of Delaware;

RESOLVED FURTHER, that it is in the best interest of this Corporation to assume the liabilities and obligations of the Subsidiary in exchange for all of the estate, property, right and privileges of the Subsidiary;

RESOLVED FURTHER, that the Certificate of Ownership and Merger presented to this Board and attached hereto as EXHIBIT A, be and it hereby is approved in its entirety;

RESOLVED FURTHER, that upon the Effective Date, pursuant to the Certificate of Ownership and Merger, as presented to and filed in the Office of the Delaware Secretary of State, the name of this Corporation shall be changed to "ON Semiconductor Corporation";

RESOLVED FURTHER, that the President or any Vice President and the Secretary or any Assistant Secretary of this Corporation are, and each of them hereby is, authorized and directed for and on behalf of the Corporation to execute, under the corporate seal of this Corporation, the Certificate of Ownership and Merger, with such modifications and amendments thereto as the officers shall approve, such approval being conclusively evidenced by the execution and delivery thereof, setting forth or attaching a copy of the resolutions, as applicable, to merge the Subsidiary into this Corporation and assume such entity's liabilities and obligations in exchange for all of the estate, property, rights and privileges of the Subsidiary on the Effective Date, and to promptly file the Certificate of Ownership and Merger in the office of the Secretary of State of the State of Delaware in order to reflect such date as the date of the merger and Corporation's name change, and certified copies thereof with the New Castle County Recorder of Deeds Office, and the County Clerk in each county in which the Subsidiary is located or their real property is situated, if any;

RESOLVED FURTHER, that the officers of this Corporation are, and each of them hereby is, authorized and directed for and on behalf of the Corporation to execute and deliver such other documents and to take any and all actions as each of them deems necessary or advisable, within or outside the State of Delaware, and within or outside of the United States of America, in order to effect the merger of the Subsidiary with and into this Corporation and the change of name of this Corporation, and to carry out the full intent of the foregoing resolutions; such determination being conclusively presumed by the officer's execution and delivery of any such document and taking any such action; and

RESOLVED FURTHER, that all prior acts or actions taken or to be taken by the officers of this Corporation in connection herewith are hereby ratified and approved.

(3) The merger of the Subsidiary into the Surviving Corporation shall become effective as of the date hereof and the name of the Surviving Corporation shall be changed to "ON Semiconductor Corporation" effective as of the date hereof.

IN WITNESS WHEREOF, the Surviving Corporation has caused this Certificate of Ownership and Merger to be signed by its President and attested by its Secretary, and its corporate seal to be affixed, this 9th day of August, 2000 and do hereby affirm, under penalties of perjury, that the statements contained herein have been examined by us and are true and correct.

SCG HOLDING CORPORATION

By /s/ STEVEN P. HANSON
Name: Steven P. Hanson
Title: President and Chief Executive Officer

ATTEST:

By: /s/ GEORGE H. CAVE
Name: George H. Cave
Title: Secretary

CERTIFICATE OF DESIGNATIONS
of
SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK
of
ON SEMICONDUCTOR CORPORATION
(Pursuant to Section 151 of the
Delaware General Corporation Law)

ON Semiconductor Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), hereby certifies that the following resolutions were adopted by the Board of Directors of the Corporation (the "Board of Directors") pursuant to authority of the Board of Directors as required by Section 151 of the General Corporation Law of the State of Delaware:

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors in accordance with the provisions of the Amended and Restated Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"), the Board of Directors hereby creates a series of the Corporation's previously authorized preferred stock, $0.01 par value (the "Preferred Stock"), and hereby states the designation and number thereof, and fixes the voting powers, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions thereof, as follows:

Series A Cumulative Convertible Preferred Stock:

I. Designation and Amount

The designation of this series of shares shall be "Series A Cumulative Convertible Preferred Stock" (the "Series A Preferred Stock"); the stated value per share shall be $10,000 (the "Stated Value"); and the number of shares constituting such series shall be 10,000. The number of shares of the Series A Preferred Stock may be decreased from time to time by a resolution or resolutions of the Board of Directors or a duly authorized committee of the Board of Directors and by the filing of a certificate pursuant to the provisions of the General Corporation Law of the State of Delaware stating that such reduction has been so authorized; provided, however, that such number shall not be decreased below the aggregate number of shares of the Series A Preferred Stock then outstanding.

II. Rank

A. With respect to dividend rights, the Series A Preferred Stock shall rank (i) junior to each other class or series of Preferred Stock which by its terms ranks senior to the Series A Preferred Stock as to payment of dividends, (ii) on a parity with each other class or series of Preferred Stock which by its terms ranks on a parity with the Series A Preferred Stock as to payment of dividends, and (iii) prior to the Corporation's Common Stock, par value $0.01 per share (the "Common Stock"), and, except as specified above, all other classes and series of capital stock of the Corporation hereafter issued by the Corporation. With respect to dividends,

all equity securities of the Corporation to which the Series A Preferred Stock ranks senior, including the Common Stock, are collectively referred to herein as the "Junior Dividend Securities"; all equity securities of the Corporation with which the Series A Preferred Stock ranks on a parity, if any, are collectively referred to herein as the "Parity Dividend Securities"; and all equity securities of the Corporation to which the Series A Preferred Stock ranks junior, if any, are collectively referred to herein as the "Senior Dividend Securities."

B. With respect to the distribution of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the Series A Preferred Stock shall rank (i) junior to each other class or series of Preferred Stock which by its terms ranks senior to the Series A Preferred Stock as to distribution of assets upon liquidation, dissolution or winding up, (ii) on a parity with each other class or series of Preferred Stock which by its terms ranks on a parity with the Series A Preferred Stock as to distribution of assets upon liquidation, dissolution or winding up of the Corporation, and (iii) prior to the Common Stock, and, except as specified above, all other classes and series of capital stock of the Corporation hereinafter issued by the Corporation. With respect to the distribution of assets upon liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, all equity securities of the Corporation to which the Series A Preferred Stock ranks senior, including the Common Stock, are collectively referred to herein as "Junior Liquidation Securities" (and together with the Junior Dividend Securities are referred to herein as the "Junior Securities"); all equity securities of the Corporation to which the Series A Preferred Stock ranks on parity, if any, are collectively referred to herein as "Parity Liquidation Securities" (and together with the Parity Dividend Securities are referred to herein as the "Parity Securities"); and all equity securities of the Corporation to which the Series A Preferred Stock ranks junior, if any, are collectively referred to herein as "Senior Liquidation Securities" (and together with the Senior Dividend Securities are referred to herein as the "Senior Securities").

C. The Series A Preferred Stock shall be subject to the creation of Junior Securities and Parity Securities, but no Senior Securities or additional Series A Preferred Stock shall be created except in accordance with the terms hereof, including, without limitation, Article VII, Section E.

III. Dividends

A. Dividends. Shares of Series A Preferred Stock shall accumulate dividends, payment of which shall be made in cash except as otherwise provided in this Article III, at a rate of 8.00% per annum or, if greater in any quarterly period, in an amount equal to the value of the dividends that would have been paid with respect to the shares of Common Stock into which such shares of Series A Preferred Stock could have been converted on the record date for the payment of such dividends with respect to the Common Stock. Dividends are due and shall be paid in four equal quarterly installments on the last day of March, June, September and December of each year (commencing December 31, 2001, it being understood that dividends shall be deemed to have accumulated from the Closing Date through December 31, 2001), or if any such date is not a Business Day, on the Business Day next preceding such day (each such date, regardless of whether any dividends have been paid or declared and set aside for payment on such date, a "Dividend Payment Date"), to holders of record (the "Registered Holders") as they appear on the stock record books of the Corporation on the fifteenth day prior to the

relevant Dividend Payment Date; provided, however, that the Corporation may elect not to declare or make any dividend payment due hereunder on any Dividend Payment Date (other than as required in connection with any redemption of shares of Series A Preferred Stock or any liquidation, dissolution or winding up of the Corporation), and any such amount then due in respect of dividends shall constitute an Arrearage (as defined below). Dividends shall be paid only when, as and if declared by the Board of Directors out of funds at the time legally available for the payment of dividends. Dividends shall begin to accumulate on outstanding shares of Series A Preferred Stock from the date of issuance and shall be deemed to accumulate from day to day whether or not earned or declared until paid. Dividends shall accumulate on the basis of a 360-day year consisting of twelve 30-day months (four 90-day quarters) and the actual number of days elapsed in the period for which payable.

B. Accumulation. Dividends on the Series A Preferred Stock shall be cumulative, and from and after any Dividend Payment Date on which any dividend that has accumulated or been deemed to have accumulated through such date has not been paid in full or any payment date set for a redemption on which such redemption payment has not been paid in full, additional dividends shall accumulate in respect of the amount of such unpaid dividends or unpaid redemption payment (such amount, the "Arrearage") as provided in Section A of this Article III (or such lesser rate as may be the maximum rate that is then permitted by applicable law). Such additional dividends in respect of any Arrearage shall be deemed to accumulate from day to day whether or not earned or declared until the Arrearage is paid, shall be calculated as of such successive Dividend Payment Date and shall constitute an additional Arrearage from and after any such successive Dividend Payment Date to the extent not paid on such Dividend Payment Date. References in any Article herein to dividends that have accumulated or that have been deemed to have accumulated with respect to the Series A Preferred Stock shall include the amount, if any, of any Arrearage together with any dividends accumulated or deemed to have accumulated on such Arrearage pursuant to the immediately preceding two sentences. Additional dividends in respect of any Arrearage may be declared and paid at any time, in whole or in part, without reference to any regular Dividend Payment Date, to Registered Holders as they appear on the stock record books of the Corporation on such record date as may be fixed by the Board of Directors (which record date shall be no less than 10 days prior to the corresponding payment date).

C. Method of Payment. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accumulated and payable on all outstanding shares of Series A Preferred Stock shall be allocated pro rata on a share-by-share basis among all such shares then outstanding. Any such partial payment shall be made in cash. Dividends that are declared and paid in an amount less than the full amount of dividends accumulated on the Series A Preferred Stock (and on any Arrearage) shall be applied first to the earliest dividend which has not theretofore been paid. All cash payments of dividends on the shares of Series A Preferred Stock shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

IV. Liquidation Preference

In the event of a liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of then-outstanding shares of Series A Preferred Stock shall be entitled to receive out of the assets of the Corporation, whether such assets are capital or surplus of any nature, an amount per share equal to the greater of (i) the sum of (A) the dividends, if any, accumulated or deemed to have accumulated thereon to the date of final distribution to such holders, whether or not such dividends are declared, and (B) the Stated Value thereof, and (ii) the amount that would be payable to holders of the Series A Preferred Stock if the shares of Series A Preferred Stock had been converted into shares of Common Stock immediately prior to such liquidation, dissolution or winding up, and no more, before any payment shall be made or any assets distributed to the holders of any Junior Liquidation Securities. After any such payment in full, the holders of Series A Preferred Stock shall not, as such, be entitled to any further participation in any distribution of assets of the Corporation. All the assets of the Corporation available for distribution to stockholders after the liquidation preferences of any Senior Liquidation Securities, if any, shall be distributed ratably (in proportion to the full distributable amounts to which holders of Series A Preferred Stock and Parity Liquidation Securities, if any, are respectively entitled upon such dissolution, liquidation or winding up) among the holders of the then-outstanding shares of Series A Preferred Stock and Parity Liquidation Securities, if any, when such assets are not sufficient to pay in full the aggregate amounts payable thereon.

Neither a consolidation or merger of the Corporation with or into any other Person or Persons, nor a sale, conveyance, lease, exchange or transfer of all or part of the Corporation's assets for cash, securities or other property to a Person or Persons shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this Article IV entitling the Series A Preferred Stock to a liquidation preference hereunder, but the holders of shares of Series A Preferred Stock shall nevertheless be entitled from and after any such consolidation, merger or sale, conveyance, lease, exchange or transfer of all or part of the Corporation's assets to the rights in respect of a liquidation provided by this Article IV following any such transaction. Notice of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable to each holder of shares of Series A Preferred Stock in such circumstances shall be payable, shall be given by first-class mail, postage prepaid, mailed not less than 45 days prior to any payment date stated therein, to holders of record as they appear on the stock record books of the Corporation as of the date such notices are first mailed.

V. Mandatory Redemption

A. Mandatory Redemption. The Series A Preferred Stock shall not be redeemable except as provided in this Article V. At any time on or after the eighth anniversary of the original issuance of the Series A Preferred Stock, the Series A Preferred Stock, shall, to the extent that the Corporation shall have funds legally available therefore, be redeemable in whole or in part at the option of the holders of the Series A Preferred Stock at a redemption price per share in cash (the "Mandatory Redemption Price") equal to the greater of (i) Stated Value plus all unpaid dividends accumulated thereon to the date of actual payment of the Mandatory

Redemption Price, whether or not such dividends have been declared and (ii) 50% of the Current Market Price of the Conversion Shares and other assets and property, if any, into which one share of Series A Preferred Stock is then convertible, in each case determined as of the Mandatory Redemption Date.

B. Mandatory Redemption Notice and Redemption Procedures. If any holder of Series A Preferred Stock desires to exercise such holder's redemption right pursuant to Section A of this Article V, such holder shall give written notice to the Corporation stating such holder's election and specifying the number of shares to be redeemed pursuant to Section A of this Article V (the "Mandatory Redemption Notice"). Within 10 days after the receipt of such Mandatory Redemption Notice, the Corporation shall give written notice to such holder, by first-class mail, postage prepaid, at such holder's address as it appears on the records of the Company:

(i) notifying such holder of the date fixed for redemption (which shall not be later than 30 days after the receipt by the Corporation of the Mandatory Redemption Notice) (the "Mandatory Redemption Date");

(ii) stating that the Series A Preferred Stock may be converted until the close of business on the Business Day prior to the Mandatory Redemption Date by surrendering to the Corporation or its transfer agent for the Series A Preferred Stock the certificate or certificates for the shares to be converted, accompanied by written notice specifying the number of shares to be converted, and stating the name and address of the transfer agent of the Series A Preferred Stock, if any; and

(iii) stating that dividends shall cease to accrue on the Mandatory Redemption Date unless the Corporation defaults in the payment of the Mandatory Redemption Price.

The Corporation shall redeem the number of shares of Series A Preferred Stock so specified in the Mandatory Redemption Notice on the Mandatory Redemption Date.

C. Change of Control. In the event there occurs a Change of Control, any holder of record of shares of Series A Preferred Stock, in accordance with the procedures set forth in Section D of this Article V, may require the Corporation to redeem any or all of the shares of Series A Preferred Stock held by such holder in an amount per share equal to the sum of (i) the amount, if any, of all unpaid dividends accumulated thereon to the date of actual payment thereof, whether or not such dividends have been declared, and (ii) 101% of Stated Value (the "Change of Control Price").

D. Change of Control Notice and Redemption Procedures. Notice of any Change of Control shall be sent to the holders of record of the outstanding shares of Series A Preferred Stock not more than ten days following a Change of Control, which notice (a "Change of Control Notice") shall describe the transaction or transactions constituting such Change of Control and set forth each holder's right to require the Corporation to redeem any or all shares of Series A Preferred Stock held by him or her out of funds legally available therefor, the redemption date, which date shall be not more than 30 days from the date of such Change of Control Notice (the "Change of Control Redemption Date"), and the procedures to be followed by such holders in exercising his or her right to cause such redemption; provided, however, that if shares of

Series A Preferred Stock are owned by more than 50 holders or groups of Affiliated holders and if the Series A Preferred Stock is listed on any national securities exchange or quoted on any national quotation system, the Corporation shall give such Change of Control Notice by publication in a newspaper of general circulation in the Borough of Manhattan, The City of New York, within 30 days following such Change of Control and, in any case, a similar notice shall be mailed concurrently to each holder of shares of Series A Preferred Stock. Failure by the Corporation to give the Change of Control Notice as prescribed by the preceding sentence, or the formal insufficiency of any such Change of Control Notice, shall not prejudice the rights of any holder of shares of Series A Preferred Stock to cause the Corporation to redeem any such shares held by him or her. In the event a holder of shares of Series A Preferred Stock shall elect to require the Corporation to redeem any or all such shares of Series A Preferred Stock pursuant to Section C of this Article V, such holder shall deliver, prior to the Change of Control Redemption Date as set forth in the Change of Control Notice, or, if the Change of Control Notice is not given as required by this Section D, at any time following the last day the Corporation was required to give the Change of Control Notice in accordance with this Section D (in which case the Change of Control Redemption Date shall be the date which is the later of (x) 30 days following the last day the Corporation was required to give the Change of Control Notice in accordance with this Section D and (y) 15 days following the delivery of such election by such holder), a written notice, in the form specified by the Corporation (if the Corporation did in fact give the notice required by this Section D), to the Corporation so stating, and specifying the number of shares to be redeemed pursuant to Section C of this Article V; provided, however, that if all of the shares of the Series A Preferred Stock are owned by 50 or fewer holders or groups of Affiliated holders, such holders or groups may deliver a notice or an election to redeem at any time within 90 days following the occurrence of a Change of Control without awaiting receipt of a Change of Control Notice or the expiration of the time allowed for the delivery of a Change of Control Notice hereunder. The Corporation shall redeem the number of shares so specified on the Change of Control Redemption Date fixed by the Corporation or as provided in the preceding sentence. The Corporation shall comply with the requirements of Rules 13e-4 and 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the shares of Series A Preferred Stock as a result of a Change of Control. From and after the time the Change of Control Redemption Price is paid in accordance with the terms hereof with respect to any share of Series A Preferred Stock, all dividends on such share of Series A Preferred Stock shall cease to accumulate and all rights of the holder thereof as a holder of Series A Preferred Stock shall cease and terminate.

E. Deposit of Funds. The Corporation shall, no later than 11:00 a.m., New York City time, on any Mandatory Redemption Date or Change of Control Redemption Date pursuant to this Article V, deposit with its transfer agent or other redemption agent in the Borough of Manhattan, The City of New York having a capital and surplus of at least $500,000,000, as a trust fund for the benefit of the holders of the shares of Series A Preferred Stock to be redeemed, cash that is sufficient in amount to redeem the shares to be redeemed in accordance with the Mandatory Redemption Notice or Change of Control Notice, with irrevocable instructions and authority to such transfer agent or other redemption agent to pay to the respective holders of such shares, as evidenced by a list of such holders certified by an officer of the Corporation, the Mandatory Redemption Price or Change of Control Redemption Price, as the case may be, upon

surrender of their respective share certificates. Such deposit shall be deemed to constitute full payment of such shares to the holders, and from and after the date of such deposit, all rights of the holders of the shares of Series A Preferred Stock that are to be redeemed as stockholders of the Corporation with respect to such shares, except the right to receive the Mandatory Redemption Price or Change of Control Price, as applicable, upon the surrender of their respective certificates and all rights under Articles VIII and X, shall cease and terminate. In case holders of any shares of Series A Preferred Stock called for redemption shall not, within two years after such deposit, claim the cash deposited for redemption thereof, such transfer agent or other redemption agent shall, upon demand, pay over to the Corporation the balance so deposited. Thereupon, such transfer agent or other redemption agent shall be relieved of all responsibility to the holders thereof and the sole right of such holders, with respect to shares to be redeemed, shall be to receive the Mandatory Redemption Price or Change of Control Price, as applicable, as general creditors of the Corporation. Any interest accrued on any funds so deposited shall belong to the Corporation, and shall be paid to it from time to time on demand.

VI. Restrictions on Dividends

So long as any shares of the Series A Preferred Stock are outstanding, the Board of Directors shall not declare, and the Corporation shall not pay or set apart for payment any dividend on any Junior Securities or Parity Securities or make any payment on account of, or set apart for payment money for a sinking or other similar fund for, the repurchase, redemption or other retirement of, any Junior Securities or Parity Securities or any warrants, rights or options exercisable for or convertible into any Junior Securities or Parity Securities (other than the repurchase, redemption or other retirement of debentures or other debt securities that are convertible or exchangeable into any Junior Securities or Parity Securities), or make any distribution in respect of the Junior Securities or Parity Securities, either directly or indirectly, and whether in cash, obligations or shares of the Corporation or other property (other than distributions or dividends in Junior Securities to the holders of Junior Securities), and shall not permit any Person directly or indirectly controlled by the Corporation to purchase or redeem any Junior Securities or Parity Securities or any warrants, rights, calls or options exercisable for or convertible into any Junior Securities or Parity Securities (other than the repurchase, redemption or other retirement of debentures or other debt securities that are convertible or exchangeable into any Junior Securities or Parity Securities) unless prior to or concurrently with such declaration, payment, setting apart for payment, repurchase, redemption or other retirement or distribution, as the case may be, all accumulated and unpaid dividends on shares of the Series A Preferred Stock not paid on the dates provided for in Section A of Article III (including Arrearages and accumulated dividends thereon and regardless of whether the Corporation shall have had the right to elect to defer such payments as provided for in Article III) shall have been paid, except that when dividends are not paid in full as aforesaid upon the shares of Series A Preferred Stock, all dividends declared on the Series A Preferred Stock and any series of Parity Dividend Securities shall be declared and paid pro rata so that the amount of dividends so declared and paid on Series A Preferred Stock and such series of Parity Dividend Securities shall in all cases bear to each other the same ratio that accumulated dividends (including interest accrued on or additional dividends accumulated in respect of such accumulated dividends) on the shares of Series A Preferred Stock and such Parity Dividend Securities bear to each other. Notwithstanding the foregoing, this paragraph shall not prohibit (i) the acquisition, repurchase,

exchange, conversion, redemption or other retirement for value of shares of Series A Preferred Stock or any Parity Dividend Security by the Corporation in accordance with the terms of such securities or (ii) the acquisition, repurchase, exchange, conversion, redemption or other retirement for value by the Corporation of any Junior Dividend Securities by the Corporation in accordance with obligations in existence at the time of original issuance of the Series A Preferred Stock.

VII. Voting Rights

A. The holders of shares of Series A Preferred Stock shall have no voting rights except as set forth below or as otherwise from time to time required by law.

B. So long as any shares of the Series A Preferred Stock are outstanding, each share of Series A Preferred Stock shall entitle the holder thereof to vote on all matters voted on by holders of Common Stock, and the shares of Series A Preferred Stock shall vote together with shares of Common Stock as a single class. With respect to any such vote, each share of Series A Preferred Stock shall entitle its holder to a number of votes equal to the number of shares of Common Stock into which such share of Series A Preferred Stock would be convertible at the time of the record date with respect to such vote (assuming all conditions precedent to such conversion have been satisfied and that such conversion had occurred as of the record date for such vote), assuming for purposes of this Section B only, and without prejudice to any other provision of this Certificate of Designations, that the Conversion Price for purposes of determining such number of shares of Common Stock is $3.19, which price shall be adjusted, *mutatis mutandis*, as set forth in Section B of Article VIII.

C. So long as the Investor or any of its Affiliates Beneficially Owns, in the aggregate, at least 50% of the Series A Preferred Stock, in the event that one or more of the Investor Nominees required to be designated for election to the Board of Directors pursuant to the Investment Agreement are not so designated or are not elected to the Board of Directors, then the number of directors constituting the Board of Directors shall, without further action, be increased by the number of such Investor Nominees not elected to the Board of Directors pursuant to the Investment Agreement, or if such requisite increase in the number of directors constituting the Board of Directors would require the approval of the Corporation's stockholders or is prohibited by the Investment Agreement, then the number of directors constituting the Board of Directors shall be increased to the extent the approval of the Corporation's stockholders is not required and the Investment Agreement would not be breached and a number of directors (other than Investor Nominees) shall resign from the Board of Directors, so as to enable the Investor and its Affiliates to designate as directors the number of Investor Nominees not elected to the Board of Directors pursuant to the Investment Agreement, and the Investor and its Affiliates shall have, in addition to the other voting rights set forth herein, the exclusive right, voting separately as a single class, to elect a number of directors to the Board of Directors equal to the number of such Investor Nominees not elected to the Board of Directors. Directors elected pursuant to this Section C shall continue as directors and such additional voting right shall continue until such time as the requisite number of Investor Nominees are elected to the Board of Directors pursuant to the Investment Agreement, at which time the directors elected by the Investor and its Affiliates pursuant to this Section C shall cease to be directors (unless elected as

Investor Nominees), and such additional voting rights shall terminate subject to revesting in the event of each and every subsequent event of the character indicated above.

D. (a) The foregoing rights of holders of shares of Series A Preferred Stock to take any action as provided in this Article VII may be exercised at any annual meeting of stockholders or at a special meeting of stockholders held for such purpose as hereinafter provided or at any adjournment thereof, or by the written consent, delivered to the Secretary of the Corporation, of the holders of the minimum number of shares required to take such action. So long as such right to vote continues (and unless such right has been exercised by written consent of the minimum number of shares required to take such action), the Chairman of the Board of Directors may call, and upon the written request of holders of record of 20% of the outstanding shares of Series A Preferred Stock, addressed to the Secretary of the Corporation at the principal office of the Corporation, shall call, a special meeting of the holders of shares entitled to vote as provided herein. Such meeting shall be held as soon as reasonably practicable after delivery of such request to the Secretary, at the place and upon the notice provided by law and in the By-laws for the holding of meetings of stockholders.

(b) Each director elected pursuant to Section C of this Article VII shall serve until the next annual meeting or until his or her successor shall be elected and shall qualify, unless the director’s term of office shall have terminated pursuant to the provisions of Section C hereof. In case any vacancy shall occur among the directors elected pursuant to Section C hereof, such vacancy shall be filled for the unexpired portion of the term by vote of the remaining director or directors theretofore elected pursuant to Section C of this Article VII (or such director’s or directors’ successor in office), if any. If any such vacancy is not so filled within 20 days after the creation thereof or if all of the directors so elected shall cease to serve as directors before their term shall expire, the holders of the shares of Series A Preferred Stock then outstanding and entitled to vote for such director pursuant to the provisions of Section C of this Article VII may elect successors to hold office for the unexpired terms of any vacant directorships, by written consent as provided herein, or at a special meeting of such holders called as provided herein. The holders of a majority of the shares entitled to vote for directors pursuant to Section C of this Article VII shall have the right to remove with or without cause at any time and replace any directors such holders have elected pursuant to such section, by written consent as herein provided, or at a special meeting of such holders called as provided herein.

E. Without the consent or affirmative vote of the holders of at least a majority of the outstanding shares of Series A Preferred Stock, voting separately as a class, the Corporation shall not: (i) authorize, create or issue, or increase the authorized amount of, (a) any Senior Securities or additional Series A Preferred Stock or (b) any class or series of capital stock or any security convertible into or exercisable for any class or series of capital stock, that is redeemable mandatorily or redeemable at the option of the holder thereof at any time on or prior to the redemption of the Series A Preferred Stock (whether or not only upon the occurrence of a specified event); (ii) amend, alter or repeal any provision of the Certificate of Incorporation or the By-laws, if the amendment, alteration or repeal alters or changes the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely; or (iii) authorize or take any other action if such action would be inconsistent with the provisions of this Certificate of Designations.

F. Other Securities. Subject to Section G of Article X, the Corporation shall not, from and after the date of the original issuance of the Series A Preferred Stock, enter into any agreement, amend or modify any existing agreement or obligation, or issue any security that prohibits, conflicts or is inconsistent with, or would be breached by, the Corporation's performance of its obligations hereunder.

VIII. Conversion

A. Conversion. (a) At the option and election of the holder thereof, each share of Series A Preferred Stock, including all unpaid dividends accumulated thereon to the Conversion Date (as defined below), whether or not such dividends have been declared, may be converted in the manner provided herein at any time into fully paid and nonassessable shares of Common Stock. As of the Conversion Date with respect to a share of Series A Preferred Stock, subject to subsections (d) and (e) of this Section A, such share shall be converted into that number of shares of Common Stock equal to the quotient of (i) the sum of (A) the Stated Value plus (B) all unpaid dividends accumulated on such share of Series A Preferred Stock to the Conversion Date whether or not such dividends have been declared, divided by (ii) the Conversion Price in effect on the Conversion Date.

(b) Conversion of shares of the Series A Preferred Stock may be effected by any holder thereof upon the surrender to the Corporation at the principal office of the Corporation or at the office of any agent or agents of the Corporation, as may be designated by the Board of Directors of the Corporation and identified to the holders in writing upon such designation, of the certificate for such shares of Series A Preferred Stock to be converted accompanied by a written notice stating that such holder elects to convert all or a specified whole number of shares represented by such certificate in accordance with the provisions of this Section A and specifying the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. In case such notice shall specify a name or names other than that of such holder, such notice shall be accompanied by payment of all transfer taxes payable upon the issuance of shares of Common Stock in such name or names. Other than such taxes, the Corporation will pay any and all issue and other taxes (other than taxes based on income) that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of Series A Preferred Stock pursuant hereto. As promptly as practical, and in any event within three Business Days after the Conversion Date, the Corporation shall deliver or cause to be delivered as directed by the holder of shares of Series A Preferred Stock being converted (i) certificates representing the number of validly issued, fully paid and nonassessable full shares of Common Stock to which such holder shall be entitled to, (ii) any cash that is required to be paid pursuant to subsection (d) of this Section A, and (iii) if less than the full number of shares of Series A Preferred Stock evidenced by the surrendered certificate or certificates is being converted, a new certificate or certificates, of like tenor, for the number of shares of Series A Preferred Stock evidenced by such surrendered certificate or certificates less the number of shares of Series A Preferred Stock being converted. Such conversion shall be deemed to have occurred at the close of business on the date (the "Conversion Date") of the giving of such notice by the holder of the Series A Preferred Stock to be converted and of such surrender of the certificate or certificates representing the shares of Series A Preferred Stock to be converted so that as of such time the rights of the holder thereof as to the shares being converted shall cease

except for the right to receive shares of Common Stock and/or cash in accordance herewith, and the person entitled to receive the shares of Common Stock issued as a result of such conversion shall be treated for all purposes as having become the holder of such shares of Common Stock at such time.

(c) In the event that the Series A Preferred Stock is to be redeemed pursuant to Article V, from and after the Mandatory Redemption Date or Change of Control Redemption Date, as applicable, the right of a holder to convert shares of Series A Preferred Stock pursuant to this Section A shall cease and terminate, except if the Corporation shall default in payment of the Mandatory Redemption Price on the Mandatory Redemption Date or the Change of Control Redemption Price on the Change of Control Redemption Date, in which case all such rights shall continue unless and until such shares are redeemed and such price is paid in full in accordance with the terms hereof. Notwithstanding anything in the foregoing to the contrary, if the Conversion Date shall occur with respect to any shares of Series A Preferred Stock on or prior to any Mandatory Redemption Date or Change of Control Redemption Date, such shares of Series A Preferred Stock shall be converted by the Corporation into Common Stock in the manner provided in this Section A.

(d) In connection with the conversion of any shares of Series A Preferred Stock, no fractions of shares of Common Stock shall be issued, but in lieu thereof the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to such fractional interest multiplied by the Closing Price per share of Common Stock on the Conversion Date (or on the Trading Day immediately preceding the Conversion Date, if the Conversion Date is not a Trading Day). If more than one share of Series A Preferred Stock shall be surrendered for conversion by the same holder on the same Conversion Date, the number of full shares of Common Stock issuable on conversion thereof shall be computed on the basis of the total number of shares of Series A Preferred Stock so surrendered.

(e) To the extent the Series A Shareholder Approval is required to be obtained pursuant to applicable rules, interpretations, rulings or determinations of Nasdaq, then notwithstanding anything to the contrary in this Section A, in the event that a Conversion Date with respect to a share of Series A Preferred Stock occurs on a date before which the Series A Shareholder Approval has been obtained, the number of shares of Common Stock into which such share of Series A Preferred Stock shall be converted shall not exceed the quotient of (i) the number of shares of Common Stock that is equal to 19.9% of the number of shares of Common Stock outstanding on the Closing Date (as adjusted for any stock split, reverse stock split, stock dividend or similar event) divided by (ii) 10,000, and upon delivery of such shares of Common Stock in accordance with the terms hereof, the Corporation shall pay in cash to the holder of such share of Series A Preferred Stock the amount, if any, equal to the Closing Price of the Common Stock on the Conversion Date (or, if the Conversion Date is not a Trading Day, the immediately preceding Trading Day) multiplied by the number of shares of Common Stock that would have been received upon conversion pursuant to this Article VIII that is in excess of the actual number of shares of Common Stock received as a result of the operation of this subsection (e).

(f) The Corporation shall at all times reserve and keep available for issuance upon the conversion of the Series A Preferred Stock in accordance with the terms hereof, such

number of its authorized but unissued shares of Common Stock as will from time to time be sufficient to permit the conversion of all outstanding shares of Series A Preferred Stock, and shall take all action required to increase the authorized number of shares of Common Stock if necessary to permit the conversion of all outstanding shares of Series A Preferred Stock.

B. Adjustment of Conversion Price. Except in connection with an Organic Change, which shall be subject to Section C below, the Conversion Price shall be subject to adjustment from time to time as follows:

(a) Stock Dividends. In case the Corporation after the date of the original issuance of the Series A Preferred Stock shall pay a dividend or make a distribution to all holders of shares of Common Stock in shares of Common Stock, then in any such case the Conversion Price in effect at the opening of business on the day following the record date for the determination of stockholders entitled to receive such dividend or distribution shall be reduced to a price obtained by multiplying such Conversion Price by a fraction of which (x) the numerator shall be the number of shares of Common Stock outstanding at the close of business on such record date and (y) the denominator shall be the sum of such number of shares of Common Stock outstanding and the total number of shares of Common Stock constituting such dividend or distribution, such reduction to become effective immediately after the opening of business on the day following such record date. For purposes of this subsection (a), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Corporation will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Corporation.

(b) Stock Splits and Reverse Splits. In case after the date of the original issuance of the Series A Preferred Stock outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and, conversely, in case after the original issuance of the Series A Preferred Stock outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(c) Issuances Below Market. (i) If the Corporation after the date of the original issuance of the Series A Preferred Stock issues Common Stock without consideration or at a price per share (such no consideration or price per share, the "New Price Per Share") less than either (A) the Closing Price of the Common Stock on the Trading Day immediately preceding the date of such issuance of Common Stock or (B) the Conversion Price in effect immediately preceding such issuance of Common Stock, then the Conversion Price shall be adjusted effective immediately following such issuance of Common Stock to a price obtained by multiplying such Conversion Price by a fraction of which (x) the numerator shall be the number of shares of Common Stock outstanding immediately preceding such issuance of Common Stock plus the

number of shares of Common Stock that the aggregate consideration received from such issuance of Common Stock would purchase at (1) if the New Price Per Share is less than both the Closing Price specified in clause (A) and the Conversion Price specified in clause (B), the higher of such prices or (2) if the New Price Per Share is less than either the Closing Price specified in clause (A) or the Conversion Price specified in clause (B) but not both, such price that the New Price Per Share is lower than, and (y) the denominator shall be the number of shares of Common Stock outstanding immediately preceding such issuance of Common Stock plus the number of additional shares of Common Stock so issued; provided, however, that no adjustment shall be made if such Common Stock is issued to holders of Common Stock and the Corporation issues or distributes to each holder of Series A Preferred Stock the Common Stock that each such holder would have been entitled to receive had the Series A Preferred Stock held by such holder been converted prior to such issuance of such Common Stock. For the purposes of this subsection (c)(i), the number of shares of Common Stock at any time outstanding shall not include shares held in treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractional shares of Common Stock.

(ii) If the Corporation after the date of the original issuance of the Series A Preferred Stock issues Derivative Securities entitling Persons to subscribe for or acquire Common Stock, in each case at a New Price Per Share less than either (A) the Closing Price of the Common Stock on the Trading Day immediately preceding the date of such issuance of Derivative Securities or (B) the Conversion Price in effect immediately preceding such issuance of Derivative Securities, then the Conversion Price shall be adjusted effective immediately following such issuance of Derivative Securities to a price obtained by multiplying such Conversion Price by a fraction of which (x) the numerator shall be the number of shares of Common Stock outstanding immediately preceding such issuance of Derivative Securities plus the number of shares of Common Stock that the aggregate consideration received from the exercise, conversion or exchange of such Derivatives Securities would purchase at (1) if the New Price Per Share is less than both the Closing Price specified in clause (A) and the Conversion Price specified in clause (B), the higher of such prices or (2) if the New Price Per Share is less than either the Closing Price specified in clause (A) or the Conversion Price specified in clause (B) but not both, such price that the New Price Per Share is lower than, and (y) the denominator shall be the number of shares of Common Stock outstanding immediately preceding such issuance of Derivative Securities plus the number of additional shares of Common Stock for or into which such Derivative Securities are exercisable, convertible or exchangeable; provided, however, that no adjustment shall be made if such Derivative Securities are issued to holders of Common Stock and the Corporation issues or distributes to each holder of Series A Preferred Stock the Derivative Securities that each such holder would have been entitled to receive had the Series A Preferred Stock held by such holder been converted prior to such issuance of Derivative Securities. For the purposes of this subsection (c)(ii), the number of shares of Common Stock at any time outstanding shall not include shares held in treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractional shares of Common Stock. The Corporation shall not issue any Derivative Securities in respect of shares of Common Stock held in the treasury of the Corporation. Rights or warrants issued by the Corporation to all holders of Common Stock entitling the holders thereof to subscribe for or purchase Equity Securities, which rights or warrants (A) are deemed to be transferred with such shares of Common Stock, (B) are not exercisable and (C) are also issued in respect of future issuances of

Common Stock, including shares of Common Stock issued upon conversion of shares of Series A Preferred Stock, in each case in clauses (A) through (C) until the occurrence of a specified event or events (a "Trigger Event"), shall for purposes of this subsection (c)(ii) not be deemed issued until the occurrence of the earliest Trigger Event.

(iii) If (A) the exercise price provided for in any Derivative Securities referred to in subsection (c)(ii) above, (B) the additional consideration, if any, payable upon the conversion or exchange of any Derivative Securities referred to in subsection (c)(ii) above or (C) the rate at which any such Derivative Securities referred to in subsection (c)(ii) above are convertible into or exchangeable for Common Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution upon an event which results in a related adjustment pursuant to this Article VIII), the Conversion Price then in effect shall forthwith be readjusted (effective only with respect to the conversion of Series A Preferred Stock after such readjustment) to the Conversion and Price that would then be in effect had the adjustment made upon the issuance, sale, distribution or granting of such Derivative Securities been made based upon such changed purchase price, additional consideration or conversion rate, as the case may be, but only with respect to such Derivative Securities as then remain outstanding.

(d) Special Dividends. In case the Corporation after the date of the original issuance of the Series A Preferred Stock shall distribute to all holders of shares of Common Stock evidences of its indebtedness or assets (excluding any regular periodic cash dividend but including any extraordinary cash dividend), Equity Securities (other than Common Stock) or rights to subscribe (excluding those referred to in subsection (c) above) for Equity Securities other than Common Stock, in each such case the Conversion Price in effect immediately prior to the close of business on the record date for the determination of stockholders entitled to receive such distribution shall be adjusted to a price obtained by multiplying such Conversion Price by a fraction of which (x) the numerator shall be the Closing Price per share of Common Stock on such record date, less the then-current fair market value as of such record date (as determined by the Board of Directors in its good faith judgment) of the portion of assets or evidences of indebtedness or Equity Securities or subscription rights so distributed applicable to one share of Common Stock, and (y) the denominator shall be such Closing Price, such adjustment to become effective immediately prior to the opening of business on the day following such record date; provided, however, that no adjustment shall be made (1) if the Corporation issues or distributes to each holder of Series A Preferred Stock the subscription rights referred to above that each such holder would have been entitled to receive had the Series A Preferred Stock held by such holder been converted prior to such record date or (2) if the Corporation grants to each such holder the right to receive, upon the conversion of the Series A Preferred Stock held by such holder at any time after the distribution of the evidences of indebtedness or assets or Equity Securities referred to above, the evidences of indebtedness or assets or Equity Securities that such holder would have been entitled to receive had such Series A Preferred Stock been converted prior to such record date. The Corporation shall provide any holder of Series A Preferred Stock, upon receipt of a written request therefor, with any indenture or other instrument defining the rights of the holders of any indebtedness, assets, subscription rights or Equity Securities referred to in this subsection (d). Rights or warrants issued by the Corporation to all holders of Common Stock entitling the holders thereof to subscribe for or purchase Equity

Securities, which rights or warrants (i) are deemed to be transferred with such shares of Common Stock, (ii) are not exercisable and (iii) are also issued in respect of future issuances of Common Stock, including shares of Common Stock issued upon conversion of shares of Series A Preferred Stock, in each case in clauses (i) through (iii) until the occurrence of a Trigger Event, shall for purposes of this subsection (d) not be deemed issued until the occurrence of the earliest Trigger Event.

(e) Tender or Exchange Offer. In case a tender or exchange offer made by the Corporation or any subsidiary of the Corporation for all or any portion of the Common Stock shall be consummated and such tender offer shall involve an aggregate consideration having a fair market value (as determined by the Board of Directors in its good faith judgment) at the last time (the "Offer Time") tenders may be made pursuant to such tender or exchange offer (as it may be amended) that, together with the aggregate of the cash plus the fair market value (as determined by the Board of Directors in its good faith judgment), as of the Offer Time, of consideration payable in respect of any tender or exchange offer by the Corporation or any such subsidiary for all or any portion of the Common Stock consummated within the 12 months preceding the Offer Time and in respect of which no Conversion Price adjustment pursuant to this subsection (e) has been made, exceeds 5% of the product of the Closing Price of the Common Stock at the Offer Time multiplied by the number of shares of Common Stock outstanding (including any tendered shares) at the Offer Time, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the Offer Time by a fraction of which (x) the numerator shall be (i) the product of the Closing Price of the Common Stock at the Offer Time multiplied by the number of shares of Common Stock outstanding (including any tendered shares) at the Offer Time minus (ii) the fair market value (determined as aforesaid) of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares validly tendered and not withdrawn as of the Offer Time (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the denominator shall be the product of (i) such Closing Price at the Offer Time multiplied by (ii) such number of outstanding shares at the Offer Time minus the number of Purchased Shares, such reduction to become effective immediately prior to the opening of business on the day following the Offer Time. For purposes of this subsection (e), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock.

(f) Closing Price Determination. For the purpose of any computation under subsections (c) and (d) of this Section B, the Closing Price of Common Stock on any date shall be deemed to be the average of the Closing Prices for the five consecutive Trading Days ending on the day in question (or if such day is not a Trading Day, the next preceding Trading Day), provided, however, that (i) if the "ex" date for any event (other than the issuance or distribution requiring such computation) that requires an adjustment to the Conversion Price pursuant to this Section B occurs on or after the 20th Trading Day prior to the day in question and prior to the "ex" date for the issuance or distribution requiring such computation, the Closing Price for each Trading Day prior to the "ex" date for such other event shall be adjusted by multiplying such Closing Price by the same fraction which the Conversion Price is so required to be adjusted as a

result of such other event, (ii) if the "ex" date for any event (other than the issuance or distribution requiring such computation) that requires an adjustment to the Conversion Price pursuant to this Section B occurs on or after the "ex" date for the issuance or distribution requiring such computation and on or prior to the day in question, the Closing Price for each Trading Day on and after the "ex" date for such other event shall be adjusted by multiplying such Closing Price by the reciprocal of the fraction by which the Conversion Price is so required to be adjusted as a result of such other event, and (iii) if the "ex" date for the issuance or distribution requiring such computation is on or prior to the day in question, after taking into account any adjustment required pursuant to clause (ii) of this proviso, the Closing Price for each Trading Day on or after such "ex" date shall be adjusted by adding thereto the fair market value on the day in question (as determined by the Board of Directors in a manner consistent with any determination of such value for the purposes of subsection (d) of this Section B) of the assets, evidences of indebtedness, Equity Securities or subscription rights being distributed applicable to one share of Common Stock as of the close of business on the day before such "ex" date. For the purposes of any computation under subsection (e) of this Section B, the Closing Price on any date shall be deemed to be the average of the daily Closing Prices for the five consecutive Trading Days ending at the Offer Time; provided, however, that if the "ex" date for any event (other than the tender or exchange offer requiring such computation) that requires an adjustment to the Conversion Price pursuant to this Section B occurs on or after the date of commencement of such tender or exchange offer and prior to the Offer Time for such tender or exchange offer, the Closing Price for each Trading Day prior to the "ex" date for such other event shall be adjusted by multiplying such Closing Price by the same fraction by which the Conversion Price is so required to be adjusted as a result of such other event. For purposes of this subsection (f), the term "ex" date, (i) when used with respect to any issuance or distribution, means the first date on which the Common Stock trades regular way on the Nasdaq or on the relevant exchange or in the relevant market from which the Closing Price was obtained without the right to receive such issuance or distribution, (ii) when used with respect to any subdivision or combination of shares of Common Stock, means the first date on which the Common Stock trades regular way on the Nasdaq or such exchange or in such market after the time at which such subdivision or combination becomes effective, and (iii) when used with respect to any tender or exchange offer means the first date on which the Common Stock trades regular way on the Nasdaq or such exchange or in such market after the Offer Time of such tender or exchange offer.

(g) Other Adjustments. The Corporation may, but shall not be required to, make such reductions in the Conversion Price, in addition to those required by clauses (a), (b), (c), (d), (e) and (f) of this Section B, as it considers to be advisable, including without limitation in order to avoid or diminish any income tax to holders of Common Stock or rights to purchase Common Stock resulting from any dividend or distribution of stock, from any event treated as such for income tax purposes, from any subdivision, reclassification or combination of stock, from any issuance of rights or warrants or from any other transaction having an effect similar to any of the above. Whenever the Conversion Price is reduced pursuant to the preceding sentence, the Corporation shall mail to the holders of then-outstanding shares of Series A Preferred Stock a notice of the reduction at least 15 days prior to the date the reduced Conversion Price takes effect, and such notice shall state the reduced Conversion Price and the period it will be in effect.

(h) Minimum Adjustment Requirement. No adjustment shall be required unless such adjustment would result in an increase or decrease of at least $0.01 in the Conversion Price then subject to adjustment; provided, however, that any adjustments that are not made by reason of this subsection (h) shall be carried forward and taken into account in any subsequent adjustment. In case the Corporation shall at any time issue shares of Common Stock by way of dividend on any stock of the Corporation or subdivide or combine the outstanding shares of Corporation Stock, said amount of $0.01 specified in the preceding sentence (as therefore increased or decreased, if said amount shall have been adjusted in accordance with the provisions of this subsection (h)) shall forthwith be proportionately increased in the case of such a combination or decreased in the case of such a subdivision or stock dividend so as appropriately to reflect the same.

(i) Minimum Permissible Conversion Price. Notwithstanding any other provision of this Section B, no adjustment to the Conversion Price shall reduce the Conversion Price below $0.01, and any such purported adjustment shall instead reduce the Conversion Price to $0.01. The Corporation hereby covenants not to take any action that would or does result in any adjustment in the Conversion Price that, if made without giving effect to the previous sentence, would cause the Conversion Price to be less than $0.01.

(j) Notice. Whenever the Conversion Price is adjusted as herein provided, a notice stating that the Conversion Price has been adjusted and setting forth the adjusted Conversion Price shall promptly be mailed by the Corporation to the holders of the Series A Preferred Stock.

(k) No Adjustment. Anything to the contrary herein notwithstanding, no adjustment to the Conversion Price shall be made pursuant to this Section B as a result of, or in connection with, the issuance of Common Stock or Derivative Securities (i) to directors, employees or consultants of the Corporation or its Subsidiaries pursuant to an existing or future stock option, stock purchase or other similar plan adopted by the Board of Directors, an employment agreement approved by the Board of Directors, a consulting agreement or arrangement approved by the Board of Directors, or the modification, renewal or extension of any such plan, agreement or arrangement if approved by the Board of Directors; provided, however, that with respect to the issuance of Common Stock and/or Derivative Securities to consultants other than Bain & Company, only the issuance of Common Stock and/or Derivative Securities to such consultants pursuant to such plans, agreements or arrangements in any one calendar year that would otherwise cause an adjustment to the Conversion Price pursuant to this Section B and represents in the aggregate 1% or less of the Corporation’s outstanding Common Stock as of the first day of such calendar year shall be covered by this subsection (k) and any such subsequent issuance after such 1% threshold has been exceeded shall not be covered by this subsection (k) and there shall be an adjustment to the Conversion Price as a result of any such subsequent issuance if otherwise required pursuant to this Section B, (ii) as consideration for the acquisition of a business or of assets, in each case, approved by the Board of Directors, (iii) in a firm commitment underwritten public offering in which both (x) the underwriting discount is less than 7% and (y) the offering price per share is greater than the Conversion Price in effect immediately preceding the execution of the underwriting agreement for such offering, (iv) to the Corporation’s joint venture partners in exchange for interests in the relevant joint venture if such

exchange is approved by the Board of Directors, or (v) upon exercise, conversion or exchange of any Derivative Securities the issuance of which caused an adjustment hereunder or the issuance of which did not require adjustment hereunder.

C. Organic Change.

(a) Corporation Survives. Upon the consummation of an Organic Change (other than a transaction in which the Corporation is not the surviving entity), lawful provision shall be made as part of the terms of such transaction whereby the terms hereof shall be modified, without payment of any additional consideration by any holder, so as to provide that upon the conversion of shares of Series A Preferred Stock following the consummation of such Organic Change, the holder of Series A Preferred Stock shall have the right to acquire and receive (in lieu of or in addition to the shares of Common Stock acquirable and receivable prior to the Organic Change), without payment of additional consideration therefor, such securities, cash and other property as such holder would have received if such holder had converted such shares of Series A Preferred Stock into Common Stock immediately prior to such Organic Change. Lawful provision also shall be made as part of the terms of the Organic Change so that all other terms hereof shall remain in full force and effect following such an Organic Change. The provisions of this subsection (a) shall similarly apply to successive Organic Changes of the character described in this subsection (a).

(b) Corporation Does Not Survive. The Corporation shall not enter into an Organic Change that is a transaction in which the Corporation is not the surviving entity unless lawful provision shall be made as part of the terms of such transaction whereby the surviving entity shall issue new securities to each holder of Series A Preferred Stock, without payment of any additional consideration by such holder, with terms that provide that upon the conversion of such securities, the holder of such securities shall have the right to acquire and receive (in lieu of or in addition to the shares of Common Stock acquirable and receivable prior to the Organic Change), without payment of additional consideration therefor, such securities, cash and other property (the "New Securities") as such holder would have received if such holder had converted such shares of Series A Preferred Stock into Common Stock immediately prior to such Organic Change. The certificate or articles of incorporation or other constituent document of the surviving entity shall provide for such adjustments which, for events subsequent to the effective date of such certificate or articles of incorporation or other constituent document, shall be equivalent to the adjustments provided for in Section B of this Article VIII. All other terms of such New Securities shall be substantially equivalent to the terms provided herein. The provisions of this subsection (b) shall similarly apply to successive Organic Changes of the character described in of this subsection (b).

D. Certain Events. If any event similar to or of the type contemplated by the provisions of Section B or Section C of this Article VIII, but not expressly provided for by such provisions, occurs, then the Board of Directors of the Corporation, will make an appropriate and equitable adjustment in the Conversion Price so as to protect the rights of the holders of Series A Preferred Stock; provided, however, that no such adjustment will decrease the number of shares of Common Stock issuable upon conversion of the Series A Preferred Stock.

IX. Additional Definitions

For the purposes of this Certificate of Designations of Series A Preferred Stock, the following terms shall have the meanings indicated:

"Affiliate" has the meaning set forth in Rule 12b-2 under the Exchange Act as in effect on the date of the Investment Agreement. The term "Affiliated" has a correlative meaning.

"Beneficially Own" with respect to any securities means having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Exchange Act as in effect on the date of the Investment Agreement, except that a Person shall be deemed to Beneficially Own all such securities that such Person has the right to acquire whether such right is exercisable immediately or after the passage of time). The terms "Beneficial Ownership" and "Beneficial Owner" have correlative meanings.

"Business Day" means any day, other than a Saturday, Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"By-laws" means the By-laws of the Corporation, as amended from time to time.

"Change of Control" shall be deemed to have occurred if (a) any person or group (within the meaning of Rule 13d-5 under the Exchange Act as in effect on the date of the Investment Agreement) shall own directly or indirectly, beneficially or of record, shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding Equity Securities of the Corporation, other than any TPG Person or any Person or Group that owned at least 5% of such Equity Securities on the Closing Date; (b) a majority of the seats (other than vacant seats) on the board of directors of the Corporation shall at any time be occupied by persons who were neither (i) nominated by the board of directors of the Corporation nor (ii) appointed by directors so nominated; (c) any change in control (or similar event, however denominated) with respect to the Corporation shall occur under and as defined in any indenture or agreement in respect of Indebtedness for borrowed money in excess of the aggregate principal amount of $10,000,000 to which the Corporation or any Subsidiary thereof is a party; or (d) a "Change in Control" or "Change of Control" (or similar event) shall have occurred under the Credit Agreement or the Indenture, unless, in the case of a "Change of Control" under the Indenture, the aggregate principal amount outstanding under the Senior Subordinated Notes is less than $10,000,000. Notwithstanding the foregoing, no event described above shall constitute a "Change of Control" if such event resulted directly from any action taken by the Investor or any of its Affiliates.

"Closing" has the meaning set forth in the Investment Agreement.

"Closing Date" has the meaning set forth in the Investment Agreement.

"Closing Price" with respect to a share of Common Stock on any day means, subject to subsection (f) of Section B of Article VIII if applicable, the last reported sale price on

that day or, in case no such reported sale takes place on such day, the average of the last reported bid and asked prices, regular way, on that day, in either case, as reported in the consolidated transaction reporting system with respect to securities quoted on Nasdaq or, if the shares of Common Stock are not quoted on Nasdaq, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if the shares of Common Stock are not quoted on Nasdaq and not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices on such other nationally recognized quotation system then in use, or, if on any such day the shares of Common Stock are not quoted on any such quotation system, the average of the closing bid and asked prices as furnished by a professional market maker selected by the Board of Directors in good faith making a market in the shares of Common Stock. If the shares of Common Stock are not publicly held, or so listed, quoted or publicly traded, the "Closing Price" means the fair market value of a share of Common Stock, as determined in good faith by the Board of Directors.

"Conversion Price" shall mean $2.82, as adjusted from time to time pursuant to Section B of Article VIII.

"Conversion Shares" has the meaning set forth in the Investment Agreement.

"Credit Agreement" has the meaning set forth in the Investment Agreement.

"Current Market Price" means, in respect of any share of Common Stock as of any date, the average Closing Price for the 30 Trading Days immediately preceding the date in question. In case any event that would require an adjustment to the Conversion Price pursuant to Section B of occurs with an "ex" date or an effective date occurring during the foregoing 30 Trading Day period, the Closing Prices used in determining the Current Market Price shall be appropriately adjusted to take such event into account.

"Derivative Securities" means any subscriptions, options, conversion rights, warrants, or other agreements, securities or commitments of any kind obligating the Company to issue, grant, deliver or sell, or cause to be issued, granted, delivered or sold, Common Stock.

"Equity Securities" of any Person, means any and all common stock, preferred stock and any other class of capital stock of, and any partnership or limited liability company interests in, such Person or any other similar interests of any Person that is not a corporation, partnership or limited liability company.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, from time to time.

"Governmental Entity" means any government or political subdivision or department thereof, any governmental or regulatory body (including without limitation the NASD and the Nasdaq), commission, board, bureau, agency or instrumentality, or any court or arbitrator or alternative dispute resolution body, in each case whether federal, state, local or foreign.

"Group" has the meaning set forth in Rule 13d-5 under the Exchange Act.

"Guarantee" means any direct or indirect obligation, contingent or otherwise, to guarantee (or having the economic effect of guaranteeing) Indebtedness in any manner, including, without limitation, any monetary obligation to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness (whether arising by agreement to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise).

"Indebtedness" means, with respect to any Person, without duplication, (i) all obligations of such Person for money borrowed, (ii) all obligations of such Person evidenced by bonds, debentures, notes, or other similar instruments, (iii) all obligations of such Person upon which interest charges are customarily paid, (iv) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (v) all obligations of such Person issued or assumed as the deferred purchase price of property or services (excluding (x) trade accounts payable and accrued obligations incurred in the ordinary course of business and (y) deferred earn-out and other performance-based payment obligations incurred in connection with any Permitted Acquisition (as such term is defined in the Credit Agreement as in effect on the date of the Investment Agreement), (vi) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (vii) all Guarantees by such Person of Indebtedness of others, (viii) all capital lease obligations of such Person, (ix) all obligations (determined on the basis of actual, not notional, obligations) of such Person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (x) all obligations of such Person as an account party in respect of letters of credit and bankers' acceptances issued in support of obligations that constitute Indebtedness under any other clause of this definition (unless such obligations are fully cash collateralized), provided, however, that all obligations in respect of letters of credit shall be deemed Indebtedness to the extent drawings thereunder are unreimbursed (after any applicable grace period) regardless of the purpose for which such letter of credit was issued. The Indebtedness of any Person shall include the recourse Indebtedness of any partnership in which such Person is a general partner. Notwithstanding the foregoing, no portion of Indebtedness that becomes the subject of a defeasance (whether a legal defeasance or a "covenant" or "in substance" defeasance) shall, at any time that such defeasance remains in effect, be treated as Indebtedness for purposes hereof.

"Indenture" has the meaning set forth in the Investment Agreement.

"Investment Agreement" means the Investment Agreement, dated on or about the date hereof, by and between the Investor and the Corporation, as amended, supplemented or otherwise modified from time to time.

"Investor" has the meaning set forth in the Investment Agreement.

"Investor Group" means, collectively, the Investor and its Affiliates.

"Investor Nominee" means a person designated for election to the Board of Directors by the Investor pursuant to the Investment Agreement.

"Law" means any law, treaty, statute, ordinance, code, rule, regulation, judgment, decree, order, writ, award, injunction or determination of any Governmental Entity.

"Lien" means any mortgage, pledge, lien , security interest, claim, voting agreement, conditional sale agreement, title retention agreement, restriction, option or encumbrance of any kind, character or description whatsoever.

"NASD" means the National Association of Securities Dealers, Inc.

"Nasdaq" means The Nasdaq Stock Market's National Market.

"Organic Change" means, with respect to any Person, any transaction (including without limitation any recapitalization, capital reorganization or reclassification of any class of capital stock, any consolidation or amalgamation of such Person with, or merger of such Person into, any other Person, any merger of another Person into such Person (other than a merger which does not result in a reclassification, conversion, exchange or cancellation of outstanding shares of capital stock of such Person), any sale or transfer or lease of all or substantially all of the assets of such Person or any compulsory share exchange) pursuant to which any class of capital stock of such Person is converted into the right to receive other securities, cash or other property.

"Other Credit Facilities" means, with respect to the Company, such agreements (other than the Credit Agreement and the Indenture) to which the Company now is, or hereafter becomes, a party, which agreements evidence obligations of the Company that are included within clauses (i) or (ii) of the definition of "Indebtedness", as the same may be amended, restated, supplemented, extended, renewed or increased from time to time, replaced, substituted, refunded or refinanced or otherwise modified from time to time, in whole or in part, and any successive replacements, substitutions, refundings or refinancings.

"Person" means any individual, corporation, company, association, partnership, limited liability company, joint venture, trust or unincorporated organization, or Governmental Entity.

"Securities Act" means the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, from time to time.

"Senior Subordinated Notes" means the Senior Subordinated Notes issued pursuant to the Indenture.

"Series A Shareholder Approval" has the meaning set forth in the Investment Agreement.

"Subsidiary" means as to any Person, any other Person of which more than 50% of the shares of the voting stock or other voting interests are owned or controlled, or the ability to

select or elect more than 50% of the directors or similar managers is held, directly or indirectly, by such first Person or one or more of its Subsidiaries or by such first Person and one or more of its Subsidiaries; provided, however, that no Joint Venture (as such term is defined in the Investment Agreement) shall be considered (i) a "Subsidiary" of the Corporation or (ii) a "Subsidiary" of any Subsidiary of the Corporation.

"TPG Person" means the Investor, and each Person controlled by, controlling or under common control with the Investor.

"Trading Day" means any day on which the Nasdaq is open for trading, or if the shares of Common Stock are not quoted on the Nasdaq any day on which the principal national securities exchange or national quotation system on which the shares of Common Stock are listed, admitted to trading or quoted is open for trading, or if the shares of Common Stock are not so listed, admitted to trading or quoted, any Business Day.

X. Miscellaneous

A. Notices. Any notice referred to herein shall be in writing and shall be deemed to have been duly given (and shall be effective when received), if delivered personally, by facsimile or sent by overnight courier or by first class mail, postage prepaid, as follows:

(i) if to the Corporation, to its office at 5005 East McDowell Road, Phoenix, Arizona 85008 (Attention: General Counsel);

(ii) if to a holder of the Series A Preferred Stock, to such holder at the address of such holder as listed in the stock record books of the Corporation (which may include the records of any transfer agent for the Series A Preferred Stock); or

(iii) to such other address as the Corporation or such holder, as the case may be, shall have designated by notice similarly given.

B. Reacquired Shares. Any shares of Series A Preferred Stock redeemed, purchased or otherwise acquired by the Corporation, directly or indirectly, in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof (and shall not be deemed to be outstanding for any purpose) and, if necessary to provide for the lawful redemption or purchase of such shares, the capital represented by such shares shall be reduced in accordance with the Delaware General Corporation Law. All such shares of Series A Preferred Stock shall upon their cancellation and upon the filing of an appropriate certificate with the Secretary of State of the State of Delaware, become authorized but unissued shares of Preferred Stock, $0.01 par value, of the Corporation and may be reissued as part of another series of Preferred Stock, $0.01 par value, of the Corporation subject to the conditions or restrictions on issuance set forth herein.

C. Enforcement. Any registered holder of shares of Series A Preferred Stock may proceed to protect and enforce its rights and the rights of such holders by any available remedy by proceeding at law or in equity to protect and enforce any such rights, whether for the

specific enforcement of any provision in this Certificate of Designations or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

D. Transfer Taxes. Except as otherwise agreed upon pursuant to the terms of this Certificate of Designations, the Corporation shall pay any and all documentary, stamp or similar issue or transfer taxes and other governmental charges that may be imposed under the laws of the United States of America or any political subdivision or taxing authority thereof or therein in respect of any issue or delivery of Common Stock on conversion, or other securities or property issued on account of, shares of Series A Preferred Stock pursuant hereto or certificates representing such shares or securities. The Corporation shall not, however, be required to pay any such tax or other charge that may be imposed in connection with any transfer involved in the issue or transfer and delivery of any certificate for Common Stock or other securities or property in a name other than that in which the shares of Series A Preferred Stock so converted, or on account of which such securities were issued, were registered and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Corporation the amount of any such tax or has established to the satisfaction of the Corporation that such tax has been paid or is not payable.

E. Transfer Agent. The Corporation may appoint, and from time to time discharge and change, a transfer agent for the Series A Preferred Stock. Upon any such appointment or discharge of a transfer agent, the Corporation shall send notice thereof by first-class mail, postage prepaid, to each holder of record of shares of Series A Preferred Stock.

F. Record Dates. In the event that the Series A Preferred Stock shall be registered under either the Securities Act or the Exchange Act, the Corporation shall establish appropriate record dates with respect to payments and other actions to be made with respect to the Series A Preferred Stock.

G. Subordination to Credit Agreement and Senior Subordinated Notes. Notwithstanding anything to the contrary herein, by accepting a share of Series A Preferred Stock, the holder thereof shall be deemed to have acknowledged and agreed that (a) such holder’s right to receive payments in respect of the Series A Preferred Stock is subject and subordinated in right of payment to the payment in full and discharge of all amounts of principal, interest and fees (however denominated) then outstanding under the Credit Agreement, the Senior Subordinated Notes and then existing Other Credit Facilities and (b) until (i) either payment in full of all such amounts (however denominated) under the Credit Agreement, the Senior Subordinated Notes and then existing Other Credit Facilities has been made in cash, or (ii) if earlier than such payment, all necessary waivers and consents have been obtained with respect to the relevant document as contemplated by the proviso to the last sentence of this Section G, no payment, whether directly or indirectly, by exercise of any right of set off or otherwise in respect of the Series A Preferred Stock shall be made by the Corporation, and no deposit in respect of the Series A Preferred Stock shall be made pursuant to the terms hereof. In the event that any payment by, or distribution of the assets of, the Corporation of any kind or character (whether in cash, property or securities, whether directly or indirectly, by exercise of any right of set-off or otherwise and whether as a result of a bankruptcy proceeding with respect to the Corporation or otherwise) shall be received by a holder of Series A Preferred Stock at any

time when such payment is prohibited by this Section G, such payment shall be held in trust for the benefit of, and shall be paid over to, the lenders under the Credit Agreement, the holders of Senior Subordinated Notes and the lenders under Other Credit Facilities, as the case may be, as their interests may appear. The preceding two sentences address the relative rights of holders of Series A Preferred Stock, on the one hand, and the lenders under the Credit Agreement, the holders of Senior Subordinated Notes and the lenders under Other Credit Facilities, as the case may be, on the other hand, and nothing in this Certificate of Designations shall impair, as between the Corporation and the holders of Series A Preferred Stock, the obligation of the Corporation, which is absolute and unconditional, to pay amounts due in respect of the Series A Preferred Stock in accordance with their terms. Without limiting the foregoing, upon a Change of Control, the Corporation shall pay all amounts outstanding under the Credit Agreement, the Indenture and the Other Credit Facilities to the extent necessary, but only if permitted under the relevant document, in order to permit the payment of the Change of Control Price hereunder or, if such payment is not so permitted under any such document, the Corporation shall exercise any right of defeasance it has under such document (provided that all conditions precedent to the exercise of such right of defeasance have been satisfied, which conditions the Corporation shall use its reasonable best efforts to satisfy) to the extent necessary in order to permit the payment of the Change of Control Price hereunder; provided, that the Corporation shall not be required to make such payments or exercise such right of defeasance under the Credit Agreement, the Indenture or an Other Credit Facility if the Corporation has received all necessary waivers and consents from the applicable lenders or holders of notes permitting the Corporation to pay the Change of Control Price hereunder.

IN WITNESS WHEREOF, this Certificate of Designations is executed on behalf of the Corporation by its Chief Financial Officer and attested by its Assistant Secretary, this 6th day of September, 2001.

ON SEMICONDUCTOR CORPORATION

By: /s/ DARIO SACOMANI
Name: Dario Sacomani
Title: Chief Financial Officer, Senior Vice President

[Corporate Seal]

ATTEST:

/s/ JUDITH A. BOYLE
Name: Judith A. Boyle
Title: Assistant Secretary

CERTIFICATE OF AMENDMENT
TO THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF
ON SEMICONDUCTOR CORPORATION

ON Semiconductor Corporation (formerly known as SCG Holding Corporation), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), pursuant to Section 242 of the Delaware General Corporation Law, by its Secretary does hereby certify:

1. That, at a regularly noticed meeting of the Board of Directors held on March 20, 2002, the Board of Directors of the Corporation, in accordance with the Bylaws of the Corporation and the provisions of Sections 141 and 242 of the Delaware General Corporation Law, duly adopted a resolution setting forth a proposed amendment to the Amended and Restated Certificate of Incorporation of the Corporation.

RESOLVED, that the Board of Directors hereby proposes that Article FOURTH, section (1) of the Amended and Restated Certificate of Incorporation be amended to read as follows:

> "The aggregate number of shares which the Corporation shall have authority to issue is 500,100,000, of which 100,000 of said shares shall be par value $0.01 and shall be designated Preferred Stock, and 500,000,000 of said shares shall be par value $0.01 per share and shall be designated Common Stock."

2. That, at the same meeting, the Board of Directors of the Corporation, in accordance with the Bylaws of the Corporation and the provisions of Sections 141 and 242 of the Delaware General Corporation Law, duly adopted resolutions declaring the advisability of the foregoing proposed amendment to the Amended and Restated Certificate of Incorporation and directing that such amendment be considered for adoption by the stockholders of the Corporation at the 2002 Annual Meeting of Stockholders.

3. That, in accordance with the provisions of Sections 211 and 242 of the Delaware General Corporation Law, the foregoing proposed amendment to the Amended and Restated Certificate of Incorporation was duly adopted by the stockholders of the Corporation at the 2002 Annual Meeting of Stockholders held on May 23, 2002 by the affirmative vote of (i) at least a majority of the votes entitled to be voted thereon by the holders of the Corporation's Common Stock and Series A Preferred Stock voting together, and (ii) at least a majority of the votes entitled to be voted thereon by the holders of the Corporation's Common Stock voting separately as a class.

IN WITNESS WHEREOF, ON Semiconductor Corporation has caused this Certificate of Amendment to the Amended and Restated Certificate of Incorporation to be signed by its Vice President and Secretary and attested by its Assistant Secretary, who declare under penalty of perjury that the matters set forth in the foregoing Certificate of Amendment are true and correct to their knowledge, this 1st day of August, 2002.

ON SEMICONDUCTOR CORPORATION

By: /s/ GEORGE H. CAVE
George H. Cave
Vice President and Secretary

Attest:

By: /s/ JUDITH A BOYLE
Judith A. Boyle
Assistant Secretary

STATE OF ARIZONA)
) ss:
COUNTY OF MARICOPA)

The foregoing Certificate of Amendment was acknowledged before me this 1st day of August 2002, by George H. Cave, as Vice President and Secretary of ON Semiconductor Corporation, a Delaware corporation, on behalf of the company.

/s/ LINDA M. LEE

Notary Public

[Notary Seal]

STATE OF ARIZONA)
) ss:
COUNTY OF MARICOPA)

The foregoing Certificate of Amendment was attested to before me this 1st day of August 2002, by Judith A. Boyle, as Assistant Secretary of ON Semiconductor Corporation, a Delaware corporation, on behalf of the company.

/s/ LINDA M. LEE

Notary Public

[Notary Seal]

CERTIFICATE OF AMENDMENT
TO THE
CERTIFICATE OF DESIGNATIONS OF
SERIES A CUMULATIVE CONVERTIBLE PREFERRED STOCK
OF
ON SEMICONDUCTOR CORPORATION

ON Semiconductor Corporation, a corporation duly organized and existing under the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: The Certificate of Designations of Series A Cumulative Convertible Preferred Stock ("Preferred Stock") of ON Semiconductor Corporation ("Certificate of Designations") is hereby amended to change the formula for the Mandatory Redemption Price to replace "50% of the Current Market Price . . . ." in Section V.A(ii) with "20% of the Current Market Price . . . ." so that section V.A reads in its entirety as follows:

> "A. Mandatory Redemption. The Series A Preferred Stock shall not be redeemable except as provided in this Article V. At any time on or after the eighth anniversary of the original issuance of the Series A Preferred Stock, the Series A Preferred Stock, shall, to the extent that the Corporation shall have funds legally available therefore, be redeemable in whole or in part at the option of the holders of the Series A Preferred Stock at a redemption price per share in cash (the "Mandatory Redemption Price") equal to the greater of (i) Stated Value plus all unpaid dividends accumulated thereon to the date of actual payment of the Mandatory Redemption Price, whether or not such dividends have been declared and (ii) 20% of the Current Market Price of the Conversion Shares and other assets and property, if any, into which one share of Series A Preferred Stock is then convertible, in each case determined as of the Mandatory Redemption Date."

SECOND: The foregoing amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, ON Semiconductor Corporation has caused this certificate to be signed by George H. Cave, its Senior Vice President, General Counsel and Secretary on this 15th day of June, 2004.

ON SEMICONDUCTOR CORPORATION

By: /s/ GEORGE H. CAVE
George H. Cave
Senior Vice President, General Counsel and Secretary

CERTIFICATE OF ELIMINATION
OF
ON SEMICONDUCTOR CORPORATION

On Semiconductor Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: That in a unanimous written consent of the Board of Directors of the Company ("Board of Directors" or "Board"), resolutions were duly adopted by the Board of Directors setting forth the proposed elimination and retirement of the Series A Cumulative Convertible Preferred Stock as set forth herein;

NOW THEREFORE BE IT RESOLVED, that pursuant to the Delaware General Corporation Law Section 151(g), the Board of Directors hereby authorizes the filing of a Certificate of Elimination for the Certificate of Designations with the Secretary of State of the State of Delaware providing that (i) no series or class of preferred stock will be issued under the Certificate of Designations, and (ii) upon the filing of the Certificate of Elimination for the Certificate of Designations such shares of converted Preferred Stock shall become authorized but unissued and may be reissued as part of another series of preferred stock of the Company subject to the conditions or restrictions on issuance set forth by the Board pursuant to the Company's Amended and Restated Certificate of Incorporation and Bylaws.

SECOND: That the Certificate of Designations with respect to the above Series A Cumulative Convertible Preferred Stock was filed in the office of the Secretary of State of Delaware on September 6, 2001 and amended by the filing of a Certificate of Amendment to the Certificate of Designations in the office of the Secretary of State of Delaware on June 15, 2004. None of the authorized shares of the Series A Cumulative Convertible Preferred Stock are outstanding and none will be issued.

THIRD: That in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, the Amended and Restated Certificate of Incorporation is hereby amended to eliminate all reference to the Series A Cumulative Convertible Preferred Stock.

IN WITNESS WHEREOF, the corporation has caused this certificate to be signed by its duly authorized officer, this 17th day of February, 2006.

ON SEMICONDUCTOR CORPORATION

By: /s/ JUDITH A. BOYLE
Name: Judith A. Boyle
Title: Assistant Secretary

CERTIFICATE OF AMENDMENT
TO THE
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF ON SEMICONDUCTOR CORPORATION

ON Semiconductor Corporation, a corporation organized and existing under and by virtue of the Delaware General Corporation Law, does hereby certify as follows:

1. The name of the corporation is ON Semiconductor Corporation (hereinafter referred to as the "Corporation"). The Corporation filed its original Certificate of Incorporation with the Secretary of State of Delaware on June 18, 1992, and the name of the Corporation at that time was Motorola Energy Systems, Inc.

2. A resolution was duly adopted, pursuant to Section 242 of the Delaware General Corporation Law, setting forth this Certificate of Amendment to the Amended and Restated Certificate of Incorporation and declaring this Certificate of Amendment advisable. A resolution was duly adopted, pursuant to Sections 211, 212, 242 of the Delaware General Corporation Law, setting forth and approving this Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Corporation.

3. Paragraph (1) of Article 4 of the Amended and Restated Certificate of Incorporation be, and hereby is, amended in full as follows:

"FOURTH:

(1) The aggregate number of shares which the Corporation shall have authority to issue is 600,100,000 of which 100,000 of said shares shall be par value $0.01 and shall be designated Preferred Stock, and 600,000,000 of said shares shall be par value $0.01 per share and shall be designated Common Stock."

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by George H. Cave, its Senior Vice President, General Counsel, Chief Compliance & Ethics Officer and Secretary, this 30th day of May 2006.

ON Semiconductor Corporation,
a Delaware Corporation

By: /s/ GEORGE H. CAVE
George H. Cave
Senior Vice President, General Counsel, Chief
Compliance & Ethics Officer and Secretary

Exhibit 10.1

RESTRICTED STOCK UNITS AWARD AGREEMENT
ON SEMICONDUCTOR
2000 STOCK INCENTIVE PLAN

(Form of agreement for certain officers)[1]

ON Semiconductor Corporation, a Delaware Corporation, ("Company") hereby grants to **«Name»** ("Grantee"), a Participant in the ON Semiconductor Corporation (formerly known as SCG Holding Corporation) 2000 Stock Incentive Plan ("Plan"), as amended, a Restricted Stock Units Award ("Award") for Units ("Units") representing shares of the Company's Common Stock ("Stock"). The grant is made effective as of the __ day of __________, 20__ ("Grant Date"). Although designated as a "Restricted Stock Unit Award," this Award is granted under the Performance Share Award portion of the Plan.

A. The Board of Directors of the Company has adopted the Plan as an incentive to retain members of the Board, and key employees, officers and consultants of the Company and to enhance the ability of the Company to attract new members of the Board, employees, officers and consultants whose services are considered unusually valuable by providing an opportunity for them to have a proprietary interest in the success of the Company.

B. The Board has approved the granting of units to the Grantee pursuant to the Plan to provide an incentive to the Grantee to focus on the long-term growth of the Company.

C. To the extent not specifically defined in this Restricted Stock Units Award Agreement ("Agreement") [or in the Grantee's Employment Agreement dated ____________________, 20__ ("Employment Agreement")], all capitalized terms used in this Agreement shall have the meaning set forth in the Plan.

In consideration of the mutual covenants and conditions hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Grantee agree as follows:

1. **Grant of Units**. Grantee is hereby granted a Restricted Stock Units Award for __________ Units, representing the right to receive the same number of shares of the Company's Stock, subject to the terms and conditions in this Agreement. This Award is granted pursuant to the Plan and its terms are incorporated by reference.

2. **Vesting of Units**. The Units will vest in accordance with the following schedule:

- [33 1/3%] of the Units will vest on [the first anniversary of the Grant Date] / [________________ ____, 20__];

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[1] Bracketed language and similar notations in this form indicate language that is subject to change or completion as part of the form being finalized and executed.

- An additional [33 1/3%] of the Units will vest on [the second anniversary of the Grant Date] / [________________ ______, 20__]; and
- [The final 33 1/3%] of the Units will vest on [the third anniversary of the Grant Date] / [________________ ______, 20__].]

3. **Termination of Employment or Services**.

3.1 **General**. Subject to the provisions of Section 3.2 below, if the Grantee terminates employment with, or otherwise ceases to perform services for, the Company for any reason, any Units that are not vested under the schedule in 2 above will be canceled and forfeited as of the date of termination of employment or service.

3.2 **Change in Control**. If the Company terminates the Grantee's employment or services without Cause (including a deemed termination for Good Reason, if applicable for this Grantee) within two (2) years following a Change in Control, then the unvested portion of the Units shall become immediately vested.

4. **Time and Form of Payment**. Subject to the provisions of the Agreement and the Plan, as the number of Units vest under 2 above, the Company will deliver to the Grantee the same number of whole shares of Stock, rounded up or down.

5. **Nontransferability**. The Units granted by this Agreement shall not be transferable by the Grantee or any other person claiming through the Grantee, either voluntarily or involuntarily, except by will or the laws of descent and distribution or as otherwise provided under Section 13.5 of the Plan.

6. **Adjustments**. In the event of a stock dividend or in the event the Stock shall be changed into or exchanged for a different number or class of shares of stock of the Company or of another corporation, whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, there shall be substituted for each such remaining share of Stock then subject to this Agreement the number and class of shares of stock into which each outstanding share of Stock shall be so exchanged, all as set forth in Section 14 of the Plan.

7. **Delivery of Shares**. No shares of Stock shall be delivered under this Agreement until (i) the Units vest in accordance with the schedule set forth in 2 above; (ii) approval of any governmental authority required in connection with the Agreement, or the issuance of shares thereunder, has been received by the Company; (iii) if required by the Committee, the Grantee has delivered to the Company documentation (in form and content acceptable to the Company in its sole and absolute discretion) to assist the Company in concluding that the issuance to the Grantee of any share of Stock under this Agreement would not violate the Securities Act of 1933 or any other applicable federal or state securities laws or regulations; and (iv) the Grantee has complied with 13 below of this Agreement in order for the proper provision for required tax withholdings to be made.

8. **Securities Act**. The Company shall not be required to deliver any shares of Stock pursuant to the vesting of Units if, in the opinion of counsel for the Company, such issuance would violate the Securities Act of 1933 or any other applicable federal or state securities laws or regulations.

9. **Voting and Other Stockholder Related Rights**. The Grantee will have no voting rights or any other rights as a stockholder of the Company (e.g., no rights to cash dividends) with respect to nonvested Units until the Units become vested and the Company issues shares of Stock to the Grantee.

10. **Copy of Plan**. By the execution of this Agreement, the Grantee acknowledges receipt of a copy of the Plan.

11. **Administration**. This Agreement shall at all times be subject to the terms and conditions of the Plan and the Plan shall in all respects be administered by the Board in accordance with the terms of and as provided in the Plan. The Board shall have the sole and complete discretion with respect to all matters reserved to it by the Plan and decisions of the majority of the Board with respect thereto and to this Agreement shall be final and binding upon the Grantee and the Company. In the event of any conflict between the terms and conditions of this Agreement and the Plan, the provisions of the Plan shall control.

12. **Continuation of Employment or Services**. This Agreement shall not be construed to confer upon the Grantee any right to continue employment with, or to provide services to, the Company and shall not limit the right of the Company, in its sole and absolute discretion, to terminate the employment or services of the Grantee at any time.

13. **Tax Withholding**. Pursuant to Section 17.3 of the Plan, subject to the consent and approval of the Committee or a designee of the Committee acting on the Committee's behalf (which consent and approval may be denied in the Committee's or its designee's sole and absolute discretion), the Grantee may elect to satisfy any federal, state, local, or foreign employment or income taxes due upon the vesting of shares of the Units (or otherwise) by (i) personal check or other cash equivalent acceptable to the Company, (ii) Grantee executes a same day sale of Stock pursuant to procedures approved by the Company, or (iii) having the Company withhold from those shares of Stock that the Grantee would otherwise be entitled to receive, a number of shares having a Fair Market Value equal to the minimum statutory amount necessary to satisfy the Company's applicable federal, state, local and foreign income and employment tax withholding obligations.

14. **Governing Law**. This Agreement shall be interpreted and administered under the laws of the State of Delaware.

15. **Amendments**. This Agreement may be amended only by a written agreement executed by the Company and the Grantee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be signed by its duly authorized representative and the Grantee has signed this Agreement as of the date first written above.

ON SEMICONDUCTOR CORPORATION

By: ______________________________

____
Grantee

Exhibit 10.3

[Execution Version]

JOINT VENTURE CONTRACT

for

LESHAN-PHOENIX SEMICONDUCTOR COMPANY LIMITED

(Amended on April 20, 2006)

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Appendices

A List of the Joint Venture Products
B Schedule of Capital Contributions

JOINT VENTURE CONTRACT

THIS Amended JOINT VENTURE CONTRACT (this "Contract") is made in Phoenix, Arizona, U.S.A. on April 20, 2006 between and by **LESHAN RADIO COMPANY LTD.**, an enterprise legal person established and existing under the laws of the People's Republic of China with its legal address at 27 West People's Road, Leshan, Sichuan Province 614000, People's Republic of China ("Party A"), and **SCG (CHINA) HOLDING CORPORATION,** a company established and existing under the laws of the State of Delaware, U.S.A., with its registered address at 1209 Orange Street, Wilmington, Delaware, 19801, U.S.A. ("Party B"). Party A and Party B shall hereinafter individually be referred to as a "Party" and collectively as the "Parties".

PRELIMINARY STATEMENT

WHEREAS, Party A, and Party B are parties to the restated Joint Venture Contract dated November 5, 2004, for the establishment of Leshan-Phoenix Semiconductor Company Limited (the "Company") and desire that, when this Contract becomes effective in accordance with its terms and conditions, such Joint Venture Contract shall be amended and restated in its entirety by this Contract;

WHEREAS, Party A and Party B desire that Party B increase their equity ownership through the acquisition of shares held by Party A.

NOW THEREFORE, after friendly consultations conducted in accordance with the principle of equality and mutual benefit, the Parties have agreed to amend the Amended and Restated Joint Venture Contract of 2004 as follows:

ARTICLE 1 - DEFINITIONS AND INTERPRETATION

1.01 Definitions

Unless the terms or context of this Contract otherwise provide, the following terms shall have the meanings set out below:

(a) "Affiliate" means, in relation to Party A, any enterprise or other entity which, directly or indirectly, is controlled by Party A; the term "control" meaning ownership of fifty percent (50%) or more of the registered capital or the power to appoint the general manager, factory chief or other principal person in charge of an enterprise or other entity.

"Affiliate" means, in relation to Party B any company which, through ownership of voting stock (shares) or otherwise, directly or indirectly, is controlled by, under common control with, or in control of Party B , as the case may be; the term "control" meaning ownership of fifty percent (50%) or more of the voting stock (shares) of a company, or the power to appoint or elect a majority of the directors of a company, or the power to direct the management of a company.

For purposes of this Contract, the Company shall not be deemed as an Affiliate of any Party hereto.

(b) "Articles of Association" means the Articles of Association of the Company amended and restated on November 5, 2004.

(c) "Board" and "Board of Directors" mean the board of directors of the Company.

(d) "Business License" means the business license of the Company issued by the SAIC dated March 28, 1995 and any amendment to or renewal, replacement or extension of such license.

(e) "China" and "PRC" mean the People's Republic of China excluding Hong Kong, Macau and Taiwan for purposes of this Contract.

(f) "Company" means Leshan-Phoenix Semiconductor Company Limited.

(g) "Effective Date" means the effective date of this Contract, which shall be the date on which this Contract and the Articles of Association have been approved by the Examination and Approval Authority without varying their terms or imposing any additional conditions, unless otherwise agreed by the Parties in writing.

(h) "Examination and Approval Authority" means the authority entrusted by the Chinese government to approve this Contract, the Appendices attached hereto and the Articles of Association.

(i) "Export-oriented Enterprise" means the status of the Company to be granted by the Examination and Approval Authority under PRC law.

(j) "Feasibility Study" means the Feasibility Study Report dated November 4, 1994 regarding the feasibility of the joint venture and the establishment of the Company, together with the Capital Increase and Expansion Plan for the Wafer Fab Products dated June 2002.

(k) "Joint Venture Products" means the products listed in Appendix A attached hereto and any other similar, related or complementary products that the Board approves for production by the Company.

(l) "Joint Venture Term" means the term of this Contract as set forth in Article 17.01 hereof including any extensions of such term pursuant to Article 17.02 hereof.

(m) "Land Use Rights Grant Contract" means the relevant contract or contracts for the grant of the land use rights over the Site between the Company and the Municipality of Leshan.

(n) "Management Personnel" means the Company's General Manager, Deputy General Manager and other management personnel designated by the Board.

(o) "ON" means Party B or any of its Affiliates.

(p) "Plant" means the Company's manufacturing facilities located at the Site where the Joint Venture Products will be produced.

(q) "Renminbi" or "RMB" means the lawful currency of China.

(r) "SAFE" means the State Administration of Foreign Exchange of the People's Republic of China and/or a local branch thereof, as appropriate to the context.

(s) "SAIC" means the State Administration for Industry and Commerce of the People's Republic of China and/or a local branch thereof, as appropriate to the context.

(t) "Services Contract" means the contract for the provision of services between the Company and Party A.

(u) "Site" means the parcels of land located in Leshan, Sichuan Province, on which the facilities of the Company are situated.

(v) "Technologically Advanced Enterprise" means the status of the Company to be granted by the Chinese government under PRC law

(w) "Technology" has the meaning as defined in the Technology License Contract, as amended.

(x) "Technology License Contract" means the technology license contract dated February 24, 1995 as amended so far under which the Company is the licensee.

(y) "Third Party" means any entity or person other than the Parties or their Affiliates.

(z) "United States Dollars" or "US$" means the lawful currency of the United States of America.

(aa) "Working Personnel" means all employees and staff of the Company, other than the Management Personnel.

(bb) "Wafer Fab Products" means the wafer fab products as listed in Appendix A.

1.02 Interpretation

Article headings are inserted for the purposes of convenience and reference only and shall not affect the interpretation or construction of this Contract. Words denoting the singular shall, where applicable, include the plural and vice versa. Reference to the masculine gender shall, where applicable, include the feminine gender and the neuter gender and vice versa.

ARTICLE 2 - PARTIES TO THE CONTRACT

2.01 The Parties

The Parties to this Contract are:

(a) Party A, Leshan Radio Company, Ltd., a Chinese limited liability company registered in Leshan, Sichuan Province, China, with its legal address at 27 West People's Road, Leshan, Sichuan Province, China.

Legal Representative of Party A:

Name:	Mr. Pan Min-Zhi
Position:	Chairman of the Board
Nationality:	Chinese

(b) Party B, SCG (China) Holding Corporation, a company established and existing under the laws of the State of Delaware, U.S.A., with its registered address at 1209 Orange Street, Wilmington, Delaware, 19801, U.S.A..

Legal Representative of Party B:

Name:	Mr. Keith Jackson
Position:	Chairman of Board of Directors & President
Nationality:	American

2.02 Representations, Warranties and Undertakings

(a) Each of Party A and Party B hereby represents, warrants and undertakes to the other Party that, as of the date of execution hereof and as of the Effective Date:

(i) it is duly organized, validly existing and in good standing under the laws of the place of its establishment or incorporation;

(ii) it has all requisite power, authority and approval required to enter into this Contract and upon the Effective Date will have all requisite power, authority and approval to perform fully each and every one of its obligations hereunder;

(iii) it has taken all action necessary to authorize it to enter into this Contract and such Party's representative whose signature is affixed hereto is fully authorized in writing to sign this Contract and to bind such Party thereby;

(iv) upon the Effective Date, this Contract shall constitute its legal, valid and binding obligation;

(v) neither the execution of this Contract, nor the performance of such Party's obligations hereunder, will conflict with, or result in a breach of, or constitute a default under, any provision of its business license or articles of association, or any law, rule, regulation, authorization or approval of any government agency or body, or of any contract or agreement to which it is a party or is subject; and

(vi) all material documents, statements and information of or provided by any governmental body in its possession relating to the transactions contemplated in this Contract have been disclosed to the other Party, and no document previously provided by it to the other Party contains any untrue statement of material fact.

(b) If any Party does not perform the above undertakings and representations, it shall be considered a breach of this Contract.

(c) At the time of the execution of this Contract, each Party shall provide the other Party with a certified copy of its business license.

2.03 Change of Legal Representative

Each Party shall have the right to change its legal representative and shall promptly notify the other Party of such change and the name, position and nationality of its new legal representative.

ARTICLE 3 - ESTABLISHMENT OF THE JOINT VENTURE COMPANY

3.01 Name and Address of the Company; Branches

(a) The name of the Company shall be "乐山--菲尼克斯半导体有限公司" in Chinese, and "Leshan-Phoenix Semiconductor Company Limited" in English.

(b) The legal address of the Company shall be 27A West People's Road, Leshan, Sichuan Province, China.

(c) In accordance with its business needs, the Company may establish branch offices within or outside China upon the decision of the Board and approval by the relevant governmental authorities.

3.02 Limited Liability Company

The form of organization of the Company shall be a limited liability company. Except as otherwise provided herein, once a Party has paid in full its contribution to the registered capital of the Company, it shall not be required to provide any further funds to or on behalf of the Company by way of capital contribution, loan, advance, guarantee or otherwise unless the Parties mutually agree otherwise. Creditors of the Company shall have recourse only to the assets of the Company and shall not seek repayment from any of the Parties. The Company shall indemnify the Parties against any and all losses, damages, or liabilities suffered by the Parties in respect of any Third Party claims arising out of the operation of the Company. Subject to the above, the profits, risks and losses of the Company shall be shared by the Parties in proportion to their respective contributions to the Company's registered capital.

3.03 Laws and Decrees

The Company shall be a legal person under the laws of China. The activities of the Company shall be governed and protected by the laws, decrees and relevant rules and regulations of China.

3.04 Code of Conduct

The Company and its employees shall comply with a Code of Conduct adopted by the Board of Directors. The Code of Conduct shall be substantially similar to the Code of Conduct of Party A or Party B, whichever is stricter, and shall be fully consistent with relevant Chinese laws.

ARTICLE 4 - PURPOSE, SCOPE AND SCALE OF PRODUCTION

4.01 Purpose

The Parties have agreed that the purposes of the Company will be manufacturing low cost and high efficiency semi-conductor components and products that meet world-wide quality standards by using advanced and suitable technology and scientific management methods, to satisfy the increasing global market demand and achieve a satisfactory return on investment.

4.02 Scope of Business

The Company will engage in the development, design, manufacture, assembly and testing of Integrated Circuit (“IC”) and Discrete semiconductor products and related products, the sale of products produced by the Company and the provision of after-sales service with respect to such products.

4.03 Scale of Production

It is anticipated by the Parties that the annual production capacity of the Company at the completion of all investment phases will reach 28.5 billion units of miniature surface mount IC packages and 728,000 6-inch IC and Discrete wafers. The Board of Directors of the Company shall have complete autonomy in the formulation and execution of the Company’s production policies in order to achieve these goals, and may expand or reduce the Company’s scale of production in accordance with market demands and the Company’s business situation.

ARTICLE 5 - TOTAL AMOUNT OF INVESTMENT AND REGISTERED CAPITAL

5.01 Total Investment

The total amount of investment will be Five Hundred Nine Million Three Hundred Thousand United States Dollars (US$$509.3 million). This investment shall be made in phases, subject to market conditions and the business operations of the Company, as the Board shall decide from time to time. If the Company is successful, the Parties hope to increase further their investment, but any such increase will need to be finalized and approved in the future by the Board and the Examination and Approval Authority.

5.02 Registered Capital

The total amount of registered capital will be One Hundred One Million Eight Hundred and Sixty Thousand United States Dollars (US$101.86 Million).

5.03 Contributions to Capital

(a) Party A’s contribution to the registered capital of the Company shall be Thirty Million Five Hundred Fifty-Eight Thousand United States Dollars (US$30,558,000), representing a thirty percent (30%) share of the registered capital of the Company. Party A’s contribution to the registered capital shall include the land use rights of a parcel of land and the building thereon located

at No. 27, West People's Road and currently used for Expatriate Apartments valued at One Hundred Sixty Thousand United States Dollars (US$160,000).

(b) Party B's contribution to the registered capital of the Company shall be Seventy-One Million Three Hundred Two Thousand United States Dollars (US$71,302,000) representing a seventy percent (70%) share of the registered capital of the Company.

(c) The unpaid registered capital amount as of the date hereof will be paid by installment contribution in accordance with Appendix B.

5.04 Payment of Registered Capital and Conditions Precedent thereto

(a) Subject to Article 5.04(c) below, each Party shall make its contribution to the registered capital of the Company in accordance with the schedule set forth in Appendix B.

(b) In the event that a Party fails to make its capital contribution, in whole or in part, in accordance with the provisions of Article 5.04(a) and Appendix B, such Party shall be liable to pay liquidated damages to the Company in the form of simple interest on the unpaid amount from the time due until the time paid at the rate of two percent (2%) above the six-month London Interbank Offered Rate (LIBOR) for United States Dollars up to a maximum of US$200,000.00. Notwithstanding the above provisions of this Article 5.04 (a), if the failure of a Party to make its capital contribution, in whole or in part, is not remedied within thirty (30) days of notice from any other Party, said other Party shall have the right to terminate this Contract pursuant to Article 18.01(c)(ix) hereof.

(c) The capital contributions to be made by the Parties under this Contract shall be reduced by the amount of any distributable profits that are not distributed to the Parties as dividends, and such profits may be reinvested in the business of the Company as determined by the Board. If it results in changing the payment method of the capital contribution, it shall apply to the Examination and Approval Authority for approval.

5.05 Investment Certificate

After each Party's installment contribution to the registered capital has been made, a Chinese registered accountant shall verify the contribution and issue a contribution verification report. Thereupon, the Company shall issue an investment certificate to each Party signed by the Chairman and the Vice Chairman of the Board.

5.06 Assignment of Registered Capital

(a) Each Party hereto undertakes to the other Party and to the Company that it shall not assign, sell, transfer or otherwise dispose of all or any part of its interest in the registered capital of the Company or its rights, obligations and benefits under this Contract unless (i) each of the other Party hereto shall have consented in writing to such assignment, sale, transfer or disposition or (ii)

such assignment, sale, transfer or disposition complies with the terms of this Article 5.06.

(b) When one Party (the "Disposing Party") wishes to sell, assign or otherwise dispose of all or part of its share of the registered capital (the "Offered Share"), it shall notify the other Party (the "Non-Disposing Party") in writing (the "Transfer Notice") of the identity of the proposed purchaser and provide the Non-Disposing Party a copy of the offer including all of the proposed terms and conditions of such sale, assignment or disposal. The Transfer Notice shall include a statement confirming that there is no supplementary consideration not stated in the offer. The Non-Disposing Party shall have a preemptive right to purchase all but not part of such Offered Share in proportion to its respective equity interests in the Company on terms and conditions no less favorable to the Disposing Party than those specified in the Transfer Notice.

(c) The Non-Disposing Party may exercise their preemptive right by giving notice to the Disposing Party of its intention to purchase the Offered Share within 30 days after receipt of the Transfer Notice ("Option Exercise Period"). Upon issuance of such notice, the Parties shall execute such documents as are required to effect the transfer. The purchase shall be made within 30 days after receipt of any required government approvals of the transfer.

(d) If the Non-Disposing Party should fail to exercise their preemptive right, the Disposing Party may sell all but not part of the Offered Share to the proposed purchaser at a price not less than that provided in the Transfer Notice. The Disposing Party shall provide the Non-Disposing Party with a copy of any executed written equity transfer agreement with the purchaser.

(e) It shall be a condition precedent to the right of any Party to transfer any of its registered capital that (i) the transfer shall be done in accordance with Chinese law, (ii) the transferee agrees to be bound by and entitled to the obligations and benefits of this Contract as if an original party hereto; and (iii) neither the business of the Company nor the performance of its contracts shall be interrupted, nor shall its organizational structure be affected by any such sale, assignment or other disposal of such registered capital. Notwithstanding the foregoing, unless the written consent of the Disposing Party is obtained, upon any assignment, sale or other disposal of the Disposing Party's entire interest in the registered capital of the Company, the Company shall remove from its name all references to the name of the Disposing Party and shall cease using all packaging, letterhead, stationery, promotional and advertising materials and other items which contain any reference to the name of the Disposing Party.

(f) Subject to the satisfaction of the terms and conditions set forth in this Article 5.06, the Parties shall cause their directors appointed to the Board to approve any sale, assignment or other disposal of registered capital hereunder. Any such sale, assignment or other disposal shall, to the extent required by law, be submitted to the Examination and Approval Authority for examination and approval. Upon receipt of the approval of the Examination and Approval Authority, the Company shall register the change in ownership with the SAIC.

(g) The provisions on assignment set forth in this Article 5.06 shall not apply to any sale or assignment of registered capital by any Party to any of its Affiliates, and the other Party shall be deemed to have consented to, and the Parties shall cause their directors appointed to the Board to approve, any such sale or assignment. Any such sale or assignment shall, to the extent required by law, be submitted to the Examination and Approval Authority for examination and approval. Upon receipt of such approval, the Company shall register the change in ownership with the SAIC.

(h) The share of the registered capital owned by Party B shall not be lower than 25% of the registered capital of the Company.

5.07 Encumbrance of Investment

No Party shall mortgage, pledge, charge or otherwise encumber all or any part of its contribution to the Company's registered capital without the prior written consent of the other Party.

5.08 Increase of Registered Capital and Additional Financing

(a) Any increase in the registered capital of the Company must be approved by a unanimous vote of the members of the Board present in person or by proxy at a duly constituted meeting thereof and submitted to the Examination and Approval Authority for examination and approval. Upon receipt of the approval of the Examination and Approval Authority, the Company shall register the increase in registered capital with the local branch of the SAIC. Unless otherwise agreed by the Parties, any increase in the registered capital shall be made by the Parties in the same proportion as their respective then-existing interests in the registered capital of the Company. The agreement on any capital increase may specify the time limits for payment of such capital increase. If any Party fails to contribute its share of the capital increase within the time limits set out therein, such Party shall pay interest to the Company on the amount of the overdue contribution at the rate of two percent (2%) above the six-month LIBOR for United States Dollars as in effect on the date such contribution is due. Such interest shall be payable monthly in arrears from and including the date on which such contribution is due and to but excluding the date on which such contribution (together with all interest accrued thereon) is paid in full.

(b) In the event that any Party fails to make its registered capital contribution (or any portion thereof) as provided herein or fails to provide its share of any increase in the Company's registered capital as described in (a) above, then the non-defaulting Party shall issue a notice in writing for such default to the defaulting Party. If the defaulting Party fails to make the contribution within one month of issuance of the written notice, in addition to any other rights the non-defaulting Party may have against the defaulting Party, (i) the non-defaulting Party, (ii) a third party designated by the non-defaulting Party, or (iii) the non-defaulting Party together with a third party designated by the non-defaulting Party, may undertake the defaulting Party's rights and obligations under this Contract by purchasing such portion, or the non-defaulting Party may apply for the dissolution of the Company.

(c) The Company shall fund the difference between the total amount of investment and registered capital through long-term loans obtained from financial institutions. If the Company cannot obtain all or a portion of the required loans on the strength of its own credit, then each of the Parties, either directly or through an Affiliate, shall raise loans for the Company in the same proportion as their respective contributions to the registered capital. If any Party is unable to raise loans in the proportion applicable to such Party, the other Party shall consider helping arrange for such loans. The Board shall decide the specific timing and amounts of the Company's loans. Loans shall bear interest at the actual loan interest rate, following confirmation by the Board. Such loans shall be repaid by the Company on a pari passu basis in accordance with the decision of the Board based upon the Company's ability to repay without endangering the financial stability of the Company. The Company may fund the difference between the total amount of investment and registered capital through overseas loans obtained from financial institutions.

(d) In the future, the Company may obtain additional financing by utilizing its own internal funds, through loans from sources in China or outside China, or through increased investment by the Parties.

ARTICLE 6 - RESPONSIBILITIES OF THE PARTIES

6.01 Responsibilities of Party A

In addition to its other obligations under this Contract, Party A shall have the following responsibilities:

(a) assist the Company in obtaining all necessary approvals, permits and licenses for the operation of the Company;

(b) assist the Company in liaising with the relevant authorities to effectively procure the external water supply, fuel supply, power supply, transportation, communications, and other services required for the Plant at the most preferential prices available;

(c) assist the Company in obtaining raw materials from sources in China;

(d) assist the Company in opening Renminbi and foreign currency bank accounts and in obtaining Renminbi loans when necessary;

(e) assist the Company in arranging for the transportation of imported equipment and materials between ports in China and the Plant;

(f) assist with the procedures for applying for and procuring licenses, and on carrying out all customs procedures, for the import of machinery, equipment, materials, supplies and office equipment;

(g) assist the expatriate employees of the Company to obtain all necessary entry visas and work permits;

(h) assist the Company in recruiting various types of qualified Chinese personnel;

(i) assist the Company in obtaining the Certificate of Authentication of its status as an "Integrated Circuit (IC) Manufacturing Enterprise" permitting the Company to be entitled to all the Value-Added Tax ("VAT") and other investment incentives as provided for by the governments including in State Council Document No. (2000) 18 on Policies to Encourage the Development of the Software and Integrated Circuit (IC) Industries dated on June 24, 2000 and in policies promulgated by the Sichuan Provincial Government;

(j) assist the Company in obtaining approval of its status as a Technologically Advanced Enterprise and/or Export-oriented Enterprise and securing the appropriate confirmation certificates; thus permitting the Company to enjoy the preferential tax treatment and other benefits available to such enterprises under the current and future government sponsored programs including programs promulgated under the western region modernization policies;

(k) assist the Company to obtain access to sources of foreign exchange;

(l) assist the Company to apply for and obtain approval from the Customs that the Company's factory and all other facilities will be treated as a bonded factory or warehouse in accordance with Chinese legal regulations;

(m) assist the Company in applying for and obtaining any other most preferential tax treatment and other investment incentives available under applicable laws and regulations, in addition to those listed in this Article 6.01;

(n) assist the Company in getting duty and VAT exemption that may be available on all self-used materials and equipment; and

(o) handle other matters entrusted by the Company from time to time.

6.02 Responsibilities of Party B

In addition to its other obligations under this Contract Party B shall have the following responsibilities, which shall be carried out directly or through its Affiliates:

(a) when requested by the Company, assist the Company in the purchase of equipment, supplies and materials manufactured inside or outside China ;

(b) assist the Company in obtaining loans when necessary;

(c) assist the Company in recruiting expatriate and local personnel;

(d) assist the Company in arranging training of Company personnel in China or abroad as contemplated in the Technology License Contract;

(e) assist the Company in generating export opportunities; and

(f) handle other matters entrusted by the Company from time to time.

6.03 If, at the time or times of Party B's performance hereunder, a validated U.S. export license is required for Party B or their Affiliates to lawfully export goods or associated technical data, then the issuance of such license shall constitute a condition precedent to Party B's obligations hereunder.

6.04 No Compensation

When the Parties assist the Company with the purchase of equipment, supplies and materials, they shall serve the Company without compensation and no Party may impose additional charges.

ARTICLE 7 - TECHNOLOGY AND TRADEMARKS

7.01 Technology

The Parties contemplate that from time to time during the term of this Contract, Semiconductor Components Industries, LLC may provide the Company and/or Party A with additional Technical Information and Know-How to produce other products. In such event, the Parties shall cause the Company and Party A to execute one or more additional technology license contracts with Semiconductor Components Industries, LLC in substantially the form of the Technology License Contract. Any additional technology license contracts will become effective on the date of approval by or registration with the Examination and Approval Authority and will be valid for ten (10) years.

7.02 Trademarks

(a) The Company is not authorized to use the name or trademark of any Party in its name or otherwise, except as specifically authorized in writing by such Party.

(b) The Company shall develop and register its own trademark. The use of such trademark shall be decided upon by the Board.

ARTICLE 8 - SALE OF JOINT VENTURE PRODUCTS

8.01 Distribution and Sales - Non Wafer Fab Products

(a) Unless unanimously decided otherwise by the Board, each Party, directly or through designated Affiliates, shall purchase the Company's products in proportion to its contribution to the registered capital, and the pricing of such purchases shall follow the principles provided in the Board resolutions dated June 12, 1997 and any subsequent unanimous Board resolutions.

(b) Each Party or its Affiliates may act as agent for the sale of such Party's portion of the Company's production. In such case, such Party or its Affiliates shall receive a sales commission.

(c) The majority of the Company's products will be exported directly or indirectly.

(d) Party A may request the Company to perform the assembly and test of devices by the Company which are not produced by ON. Such production would use wafers provided by Party A on a consignment basis and take place within Party A's pro rata share of the Company's manufacturing capacity. However, the quantity and specifications of each device requested must meet the Company's manufacturability requirements as defined by the General Manager of the Company.

(e) Party A and Party B may request the Company to perform the assembly and test of devices by the Company using wafers provided by Party B or its Affiliates, on a consignment basis and taking place within each Party's pro rata share of the Company's manufacturing capacity. However, the quantity and specifications of each device requested must meet the Company's manufacturability requirements as defined by the General Manager of the Company.

(f) The New Products for non wafer fab listed in Appendix A will be sold exclusively to the Parties or their affiliates. However, the Company may sell such New Products to third parties if the Board agrees such sales are in the best interests of the Company.

8.02 Distribution and Sales - Wafer Fab Products

(a) The Wafer Fab Products listed in Appendix A will be sold exclusively to the parties or their affiliates. However, the Company may sell such New Products on the open market if the Board agrees such sales are in the best interests of the Company.

(b) For the first three years of operation of the Wafer Fab, the pricing for wafer fab products will be set at the lower of (1) prices that are calculated to generate a return on invested equity equal to the weighed average annual interest rate of borrowing of the Company as determined by the Board at the end of each fiscal year plus 6% or (2) the cost at which such products could be purchased from an unrelated third party in an arm's-length transaction. Thereafter, pricing will be set at a level that generates a return on invested equity equal to the weighed average annual interest rate of borrowing of the Company as determined by the Board at the end of each fiscal year plus 6%.

(c) Each party will have the right to purchase Wafer Fab Products from the Company in proportion to their respective equity interests therein. In order to exercise such right, each party will commit at least one year in advance to purchase specified amounts of Wafer Fab Products. If a party fails to purchase any of its committed amount, then it shall pay the Company an underutilization charge as defined in the Board Resolution dated May 16, 2002. In addition, once a party makes a commitment to purchase a given amount of Wafter Fab Products, it may not reduce such amount in any subsequent year, except if (a) such reduction is caused by the exercise by either of the other parties of its right to regain its share of the total production capacity as set out

in Section 8.02d, or (b) either of the other parties agrees to take over the reduced amount.

(d) If in any year a party does not commit to purchase all the Wafer Fab Products it is entitled to purchase (such party a "Declining Party"), each of the other parties will have the right to commit to purchase a pro rata portion (based on such party's registered capital in the Company, calculated for such purpose not taking into account the equity owned by the Declining Party) of such New Products. A Declining Party may upon one year's advance notice regain its share of production.

(e) the Company shall increase its production capacity to satisfy the demands of the parties for the Wafer Fab Products. If total demand exceeds the production capacity of the Company, the parties agree that the Company will raise funds, through additional pro rata capital contributions or loans, to expand its production capacity.

(f) No party or any of its affiliates may resell to any third party wafers produced by the Company utilizing the design of any other party. However, a party and any of its affiliates may sell finished products utilizing wafers produced by the Company.

ARTICLE 9 - BOARD OF DIRECTORS

9.01 Formation of the Board

(a) The Board shall consist of nine (9) directors, three (3) of whom shall be appointed by Party A, and six (6) of whom shall be appointed by Party B. At the time this Contract is executed and each time a director is appointed, each Party shall notify in writing to the other Party the names of its appointee(s).

(b) In the event of any change in the ratio of ownership of the Parties of the registered capital of the Company (including as a result of an increase in the registered capital), the total number of directors and the number of directors appointed by each Party shall be changed as necessary to reflect such change. The Board may by its decision increase or decrease the number of directors from time to time, subject to the requirements of PRC law.

(c) Each director shall be appointed for a term of four (4) years and may serve consecutive terms if reappointed by the Party originally appointing him. A director shall serve and may be removed at the pleasure of the Party which appointed him. If a seat on the Board is vacated by the retirement, resignation, illness, disability or death of a director or by the removal of such director by the Party which originally appointed him, the Party which originally appointed such director shall appoint a successor to serve out such director's term.

(d) A director selected by Party B shall serve as the Chairman of the Board and a director selected by Party A shall serve as Vice Chairman of the Board. The Chairman of the Board shall be the legal representative of the Company.

Whenever the Chairman of the Board is unable to perform his responsibilities for any reason, another director as designated by the Chairman may temporarily represent him. The Chairman of the Board shall exercise his authority within the limits prescribed by the Board and may not under any circumstances contractually bind the Company or otherwise take any action on behalf of the Company without prior approval of the Board.

(e) Subject to a decision by the Board, the Company shall indemnify the director against all claims and liabilities incurred by reason of acting as a director of the Company, except if incurred as a result of willful misconduct, gross negligence or violations of criminal laws.

9.02 Powers of the Board

(a) The Board shall be the highest authority of the Company.

(b) Resolutions involving the following matters may be adopted at a duly constituted and convened meeting of the Board only upon the unanimous affirmative vote of each and every director of the Board voting in person, by telephone, video conference or by proxy at such meeting:

(i) amendment of the Articles of Association;

(ii) division or merger of the Company with another economic organization;

(iii) suspension or dissolution of the Company; and

(iv) increase, decrease or assignment of the registered capital of the Company.

(c) All other issues that require a resolution by the Board may be adopted at a duly convened meeting of the Board, and such resolution may be adopted only by the affirmative vote of only a simple majority of the directors present at such meeting in person or by telephone, video conference or proxy.

(d) Meetings of the Board shall be attended by at least one director from each Party or his proxy, and will be scheduled to ensure to the maximum extent possible, the convenient participation of the directors. If because of government mandated travel restrictions, either Party cannot attend the meeting, another meeting location will be selected where no travel restrictions for either Party exist. If a Party is not represented at a meeting it will be rescheduled as soon as possible to ensure the participation of directors from all the Parties, within a maximum of sixty (60) days. After sixty (60) days, the rescheduled meeting may take place if any six (6) directors participate. If a Board Meeting is held in accordance with this section, the Parties in attendance shall orally notify the non-attending Party about the contents and decisions of the meeting on the day of the meeting, then fax a copy of the minutes of the meeting to the non-attending Party within seven (7) days. The non-attending Party may offer opinions and suggestions.

9.03 Meetings

(a) Meetings of the Board shall be held at least once each year. Meetings shall be held at the registered address of the Company or such other address in China or abroad as is designated by the Board. Meetings may be attended by directors in person or by telephone, video conference or proxy.

(b) The Chairman of the Board shall set the agenda and be responsible for convening and presiding over Board meetings.

(c) Upon the written request of three (3) or more of the directors of the Company specifying the matters to be discussed, the Chairman of the Board shall within twenty-one (21) days convene an interim meeting of the Board. The Chairman, or in his absence another director as designated by the Chairman or Party B, shall decide on the timing and location of such interim meetings.

(d) In order to convene a meeting of the Board, the Chairman shall send written notice to each director at least thirty (30) days prior to the meeting. Such notice shall include a detailed agenda of matters to be discussed at the meeting and all reports, documents and other materials relevant or necessary for adequate and informed consideration of each matter on such agenda. All such notices of meetings, detailed agendas and relevant or necessary reports, documents and other materials shall be written in English and Chinese. Notice of any meeting of the Board may be waived by consent of all directors attending the meeting in person or by proxy.

(e) Subject to Article 9.02(d) above, six (6) of the directors present in person or by proxy shall constitute a quorum which shall be necessary for the conduct of business at any meeting of the Board. Except as provided in Article 9.02(d), if at any properly convened meeting, no quorum is constituted because less than two-thirds of the directors are present in person or by proxy, the Chairman may call another meeting with seven (7) days' notice. Any director absent from a meeting without giving a reason therefor and without having appointed a proxy shall be considered to have abstained from voting and shall be considered as present for purposes of determining a quorum. Excluding those directors who shall be considered to have abstained from voting, resolutions other than those listed in Article 9.02(b) hereof shall be valid if passed by more than half of the directors present.

(f) If a Board member is unable to participate in a Board meeting, he may issue a proxy and entrust a representative to participate in the meeting on his behalf. Unless otherwise provided in the proxy, the representative so entrusted shall have the same rights and powers as the Board member. One person may represent more than one director by proxy. Each Party shall cause its appointed directors to attend Board meetings either in person or by proxy.

(g) The Board will cause complete and accurate minutes to be kept of all meetings of the Board, together with copies of notices of the meetings, in English and Chinese. Minutes of all meetings of the Board shall be distributed to all the directors as soon as practicable after each meeting but not later than thirty (30) days from the date of such meeting. Any director who wishes to propose any amendment or addition thereto shall submit the same in writing to the Chairman and the Vice Chairman within two (2) weeks after receipt of the

proposed minutes. The minutes shall be finalized by the Chairman and Vice Chairman.

(h) Any action requiring the unanimous vote of the directors of the Board may be taken without a meeting if all members of the Board consent in writing to such action. Any action requiring a majority vote of the directors may be taken without a meeting if a majority of the members of the Board consent in writing to such action. Such written consents shall be filed with the minutes of the Board proceedings and shall have the same force and effect as a vote taken by members physically present.

(i) Members of the Board shall serve in such capacity without any remuneration, but all reasonable costs incurred by a director in the performance of his duties as a member of the Board shall be borne by the Party which appointed the director.

ARTICLE 10 - OPERATION AND MANAGEMENT

10.01 Management Organization

The Company shall adopt a management system under which the General Manager shall be responsible to and under the leadership of the Board.

10.02 General Manager

(a) The General Manager shall be an individual of high professional qualifications and experience. The General Manager shall be nominated by Party B and appointed by the Board of Directors. The General Manager shall be employed pursuant to such terms as shall be set out in an offering letter issued by the Board of Directors and an employment contract with the Company. If the General Manager is removed or cannot serve in such capacity due to retirement, resignation, illness, disability or death, a successor shall be nominated and appointed in the same manner as the original appointee.

(b) The General Manager shall be in charge of the day-to-day operation and management of the Company, shall be responsible to the Board and shall carry out all matters entrusted by the Board. In particular, but without limiting the generality of the foregoing, the General Manager shall have the following responsibilities:

(i) perform all pertinent obligations set forth in this Contract and the Articles of Association, as well as resolutions adopted by the Board;

(ii) formulate a comprehensive organizational structure and management system for consideration and approval by the Board;

(iii) appoint and dismiss managerial staff (both Chinese and expatriate) in charge of various departments, and their subordinates;

(iv) formulate, and submit to the Board for adoption, Company policies, rules and regulations, define and designate departmental job responsibilities, and direct and supervise departmental activities;

(v) submit to the Board for review and approval business plans, annual and quarterly budgets, forecast plans and reports;

(vi) formulate and implement personnel training programs, including apprenticeships and graduate training schemes;

(vii) manage external relations and sign economic contracts and other corporate documents as authorized by the Board; and

(viii) handle all other major issues as authorized and directed by the Board.

(c) The General Manager shall perform his or her duties on a full-time basis and shall not hold any operation or management related posts concurrently with other enterprises.

(d) The General Manager shall not be required to indemnify the Company for any acts performed in his or her official capacity (but the Company shall indemnify Third Parties for losses suffered as a result therefrom if liability exists by the Company), except for such acts which constitute willful misconduct, gross negligence or violations of criminal laws.

10.03 Deputy General Manager

(a) The Deputy General Manager shall be nominated by Party A and appointed by the Board of Directors. The Deputy General Manager shall assist the General Manager in the day-to-day operation and management of the Company.

(b) The Deputy General Manager shall perform his or her duties on a full-time basis and shall not hold any operation or management related posts concurrently with other enterprises.

(c) The Deputy General Manager shall not be required to indemnify the Company for any acts performed in his or her official capacity (but the Company shall indemnify Third Parties for losses suffered as a result therefrom if liability exists by the Company), except for such acts which constitute willful misconduct, gross negligence or violations of criminal laws.

ARTICLE 11 - SITE

11.01 Land Use Rights

(a) The Company has acquired the land use rights for the Site pursuant to the Land Use Rights Grant Contract and other relevant legal documents. The Company’s land use rights of the Site and its ownership of the buildings and structures on the Site are evidenced by several Land Use Rights Certificates and Real Estate Certificates or equivalent documents issued by the relevant Chinese government authorities in the name of the Company.

11.02 Environmental Matters

(a) The Company shall strictly comply with all applicable environmental laws and regulations of the PRC in its operation activities.

(b) Each of the Parties and the Company shall have the right to have the Site tested in accordance with ON's "Due Diligence Environmental Policy" and the Site must pass such test.

(c) The Company will participate in and cooperate with ON's audit program, in which facilities are inspected on a periodic basis for compliance with environmental, safety, and health laws and regulations. Any such audit is subject to prior notice from Party B and shall be coordinated and scheduled by the Company and Party B. The Company must provide responses to any audit recommendations and complete corrective action.

ARTICLE 12 - MATERIALS, EQUIPMENT AND SERVICES

12.01 Sources of Supply

(a) The Company shall have the right to import materials and equipment not available in China in the qualities and quantities deemed necessary by the General Manager, except that items requiring import licenses shall be handled in accordance with the relevant import licensing regulations of China.

(b) Unless otherwise required by Chinese legal regulations, the Company shall have the right to appoint foreign architects, consultants, engineers and contractors to undertake relevant work when, in the opinion of the General Manager, there are no Chinese units or individuals qualified or available to undertake such work.

12.02 Party A Services

Party A shall provide to the Company certain services and facilities required for the Company's operation, pursuant to the terms and conditions of the Services Contract.

12.03 Machinery and Equipment

The Company may purchase from Party B or its Affiliates machinery and equipment. The purchase price will be agreed upon by the Board.

ARTICLE 13 - LABOR MANAGEMENT

13.01 Governing Principle

Matters relating to the recruitment, employment, dismissal, resignation, wages and welfare of the staff and workers of the Company shall be handled in accordance with the Labor Law of the People's Republic of China (the "Labor Law") and related legislation. The Company shall have autonomy in determining its employment policies and related matters in accordance with Chinese legal regulations applicable to foreign invested enterprises. The Company shall seek to deal directly with its employees, without any external intermediary parties, and will cause the adoption of such personnel policies and practices as appropriate in order to reasonably achieve such results. The Company shall establish personnel practices that fairly reward

employees for services rendered in a manner consistent with common business practices in their location of employment.

13.02 Working Personnel

Working Personnel shall be employed by the Company in accordance with the terms of individual employment contracts entered into between the Company and individual Working Personnel or relevant agreements entered into between the Company and Party A. The standard individual employment contract shall be filed with the local labor department.

13.03 Management Personnel

Management Personnel shall be employed by the Company in accordance with the terms of individual employment contracts or the terms of relevant agreements between the Company and Party A. Expatriate personnel (including those from the regions of Hong Kong, Macau and Taiwan) shall receive a salary and benefits commensurate with those provided to expatriate personnel employed by other foreign investment enterprises of a similar nature in China.

13.04 Conformity with Labor Protection

The Company shall conform to rules and regulations of the Chinese government concerning labor protection and ensure safe and civilized production. Labor insurance for the Working Personnel of the Company shall be handled in accordance with individual employment contracts and the relevant regulations of the Chinese government.

13.05 Number of Employees

The qualifications and number of employees shall be determined in accordance with the operating needs of the Company. The Company shall refer to the guidelines provided by Party B as to staffing experience in similar types of facilities in other countries.

13.06 Employee Examination and Recruitment

(a) The Company shall observe the Labor Law, labor regulations and other relevant regulations and the Company shall have autonomy in determining its employment policies and relevant matters.

(b) Employees will be selected from candidates for employment according to their professional qualifications and work experience. Each Working Personnel may be examined and interviewed by the General Manager or his designated representative prior to commencement of employment by the Company. The General Manager shall have the absolute right to decide, on behalf of the Company, whether to employ any such person. All candidates hired by the Company must complete satisfactorily a probationary period of employment before they will be officially considered permanent employees of the Company.

ARTICLE 14 - FINANCIAL AFFAIRS AND ACCOUNTING

14.01 Accounting System

(a) The Financial Controller of the Company, under the leadership of the General Manager, shall be responsible for the financial management of the Company.

(b) The General Manager and the Financial Controller shall prepare the accounting system and procedures in accordance with the relevant regulations. The accounting system and procedures to be adopted by the Company shall be submitted to the Board for approval. Once approved by the Board, the accounting system and procedures shall be filed with the department in charge of the Company and with the relevant local department of finance and the tax authorities for the record. The accounting system and procedures approved by the Board shall to the maximum extent possible comport with the accounting requirements of Party B.

(c) The Company shall adopt Renminbi as its bookkeeping base currency, but may also adopt the United States Dollar as a supplementary bookkeeping currency.

(d) All accounting records, vouchers, books and statements of the Company shall be made and kept in Chinese. All accounting statements of the Company shall also be made and kept in English.

(e) For the purposes of preparing the Company’s accounts and statements, calculating declared dividends to be distributed to the Parties, and for any other purposes where it may be necessary to effect a currency conversion, such conversion shall be in accordance with the median rate for buying and selling announced by the People’s Bank of China, or other rate recognized by the Chinese government, on the date of actual receipt or payment.

14.02 Financial Reports

(a) The Company shall furnish to the Parties financial reports (in Chinese and English) on at least a monthly basis so that they may continuously be informed about the Company’s performance.

(b) The Company shall submit to the Parties an annual financial report (which shall include an audited profit and loss statement and balance sheet for the fiscal year) within one (1) month after the end of the fiscal year, together with an audit report from the Company’s auditor.

14.03 Audits

(a) An independent accountant registered in China shall be engaged as the Company’s auditor to examine and verify the annual financial report, investment certificates to be issued to the Parties, financial reports on the liquidation of the Company and other financial documents as required by the Board.

(b) Each of the parties shall have the right to inspect, audit, and copy, from time to time, the books and other financial records and documents of the Company at its own expense. The Party wishing to exercise its right to audit shall be free

to use its own internal auditors to perform said audit, if it so chooses. Said internal auditors shall also have the right to audit the Company's system of internal control and the Company's compliance with the Code of Conduct approved by the Company. The audit of these systems may result in recommendations to management. Management shall be required to provide responses to the recommendations and complete corrective action. Audit reports, consisting of an introduction, conclusion, recommendations, and responses will be issued to the Company and the Parties.

(c) Each Party may, at its own expense, appoint an accountant (which may be either an accountant registered abroad or registered in China) to audit the accounts of the Company on behalf of such Party. Reasonable access to the Company's financial records shall be given to such auditor and such auditor shall keep confidential all documents examined while conducting audits.

14.04 Bank Accounts and Foreign Exchange Control

(a) The Company shall open foreign exchange and Renminbi bank accounts at authorized banks in China and may also open foreign exchange account(s) outside China with the approval of SAFE for the furtherance of its business purposes.

(b) The Company's foreign exchange transactions shall be handled in accordance with relevant Chinese regulations relating to foreign exchange control.

14.05 Foreign Exchange Balance

(a) The Company shall be responsible to maintain a balance in its foreign exchange receipts and expenditures through the sale of its products and services and through other methods permitted under the laws of China.

(b) If there is a foreign exchange deficiency, the Board will consider various plans and alternatives to balance foreign exchange receipts and expenditures, which, subject to obtaining the relevant government approvals, may include all means permitted under the relevant regulations, including but not limited to export of domestically produced products and, when permitted by law, borrowing from foreign exchange banks.

(c) All costs incurred in converting Renminbi to foreign exchange required for the Company's operations shall be treated as operating expenses of the Company.

(d) Liquid funds in the Company's foreign exchange account shall be used in the following order of priority:

(i) payments of principal and interest on foreign exchange loans taken out by the Company from Third Parties;

(ii) payment for imported materials and equipment;

(iii) payment for imported services;

(iv) payments due under the Technology License Contract;

(v) payment of the Company's expatriate staff salaries;

(vi) payment of principal and interest on foreign exchange loans and advances provided by the Parties or Affiliates;

(vii) maintenance of foreign currency reserves determined by the Board of Directors;

(viii) remittance of profits to Party B; and

(ix) payment of profits to Party A.

(e) Upon government approval, the Company may source components and equipment from local suppliers for the Parties' Affiliates inside and outside China.

14.06 <u>Fiscal Year</u>

The Company shall adopt the calendar year as its fiscal year, which shall begin on January 1 and end on December 31 of the same year, except that the first fiscal year of the Company shall commence on the date that the Company is granted its Business License and shall end on the immediately succeeding December 31.

14.07 <u>Profits Distribution</u>

(a) After the payment of income tax by the Company, the Board will determine the annual allocations from after-tax net profits to the reserve fund and expansion fund of the Company and the bonus and welfare fund for the workers and staff members. The sum of the annual allocations to the three funds shall be determined by the Board.

(b) The Board shall once every year by a formally adopted resolution decide the amount of after-tax net profit of the Company (after the deduction of the allocations to the three funds mentioned in paragraph (a) above) to be retained in the Company for expanding the production and operation of the Company and the amount to be distributed to the Parties in proportion to their respective shares in the registered capital.

(c) If the Company carries losses from previous years, the after-tax net profits of the current year shall be deducted to be used for the three funds mentioned in 14.07(a) after covering losses. No profit shall be distributed unless the deficit from the previous years is made up. Profits retained by the Company and carried over from the previous years may be distributed together with the distributable profits of the current year, or after the deficit of the current year is made up therefrom.

(d) When the Company has foreign currency available for profit distribution, Party B will have a priority right to receive their respective shares of the distributable profit in foreign exchange.

ARTICLE 15 - TAXATION AND INSURANCE

15.01 Income Tax, Customs Duties and Other Taxes

(a) The Company shall pay tax under the relevant tax laws of China, subject to any further tax holidays, waivers, exemptions, or exclusions granted to the Company from time to time by any local, regional or national tax authorities.

(b) No later than six (6) months before the expiration of the preferential income tax treatment currently enjoyed by the Company, the Company may submit an application for confirmation of the Company's status as a Technologically Advanced Enterprise and Export-oriented Enterprise in accordance with the relevant regulations. Upon receiving such confirmation, the Company shall be entitled to all preferential tax treatment granted to such enterprise under PRC law.

(c) The Chinese and expatriate employees of the Company shall pay tax on their individual incomes in accordance with the relevant provisions of the tax laws of China.

15.02 Insurance

(a) The Company shall, at its own cost and expense, at all times take out and maintain full and adequate insurance for the Company against loss or damage by fire and such other risks as are customarily insured against.

(b) The property, transportation and other items of insurance of the Company will be denominated in Chinese and foreign currencies, as appropriate. The types and amounts of insurance coverage shall be determined by the General Manager.

(c) The Company shall take out the required insurance from the People's Insurance Company of China or any other insurance company authorized to do business in China.

ARTICLE 16 - CONFIDENTIALITY

16.01 Confidentiality

(a) Prior to and during the term of this Contract, each Party has disclosed or may disclose confidential and proprietary information to the other Party. In addition, the Parties may, during the term of this Contract, obtain confidential and proprietary information of the Company in connection with the operation of the Company. Each of the Parties receiving such information shall, during the term of this Contract and for three (3) years thereafter:

(i) maintain the confidentiality of such information; and

(ii) not disclose it to any person or entity, except to their employees who need to know such information to perform their responsibilities.

(b) The provisions of paragraph (a) above shall not apply to information that:

(i) can be shown to be known by the receiving Party by written records made prior to disclosure by the disclosing Party;

(ii) is or becomes public knowledge otherwise than through the receiving Party's breach of this Contract; or

(iii) was obtained by the receiving Party from a Third Party having no obligation of confidentiality with respect to such information.

(c) If required by Party B the Company shall execute a separate confidentiality agreement with provisions similar to those in paragraphs (a), (b) and (c) above with respect to confidential and proprietary information obtained by the Company from Party B or their respective Affiliates.

(d) Each of the Parties and the Company shall formulate rules and regulations to cause its directors, senior staff, and other employees, and those of their Affiliates also to comply with the confidentiality obligation set forth in this Article 16.

(e) The technology and any other technical information licensed or provided in any way by Party B or its' Affiliates to the Company or otherwise acquired or developed by the Company shall be used by the Company only in the Plant for the production of Joint Venture Products.

(f) The Company shall be liable for damages accrued to any Party as a result of a breach of any provision of this Article 16 by the Company, which damages shall be determined in accordance with the relevant provisions of the contract law of China. The payment of damages by the Company to any Party shall be without prejudice to any right or rights of action or other remedies accrued to such Party at the date of such breach.

(g) This Article 16 and the obligations and benefits hereunder shall survive for three (3) years after the expiration or termination of this Contract, notwithstanding the termination, dissolution or liquidation of the Company.

(h) Notwithstanding the foregoing provisions of this Article 16, each of the Parties shall be permitted to make any disclosure required by applicable law.

ARTICLE 17 - JOINT VENTURE TERM

17.01 Joint Venture Term

The Joint Venture Term established under this Contract shall be fifty (50) years, commencing on March 28, 1995.

17.02 Extension of the Joint Venture Term

If the Board unanimously approves the extension of the Joint Venture Term, the Company shall apply to the Examination and Approval Authority for approval no less than six (6) months prior to the expiration of the Joint Venture Term. The Joint Venture Term may be extended only upon approval by the Examination and Approval Authority.

ARTICLE 18 - TERMINATION AND LIQUIDATION

18.01 Termination

(a) This Contract shall terminate upon the expiration of the Joint Venture Term set forth in Article 17.01 hereof unless extended pursuant to Article 17.02 hereof.

(b) This Contract may be terminated at any time by the written agreement of the Parties and after obtaining approval from the relevant Chinese government authorities.

(c) This Contract may be terminated by the written notice of a Party to the other Party of an intention to terminate this Contract, followed by a vote of the Board to terminate this Contract pursuant to the procedure set forth in paragraph (d) below and after obtaining approval from the relevant Chinese government authorities, if:

(i) the other Party materially breaches this Contract (except for a breach involving capital contributions per 5.04(b)) or violates the Articles of Association causing the Company's inability to continue operating or otherwise undermining the desired objectives of the Parties, and such breach or violation is not cured within three (3) months of written notice to the breaching Party;

(ii) the Technology License Contract or any other technology contract or the Land Use Rights Contract is materially breached by the Company;

(iii) the Services Contract is materially breached by Party A causing the Company's inability to continue operating or otherwise undermining the desired objectives of the Parties (in these cases only Party B may terminate this Contract) or the Services Contract is materially breached by the Company causing the Company's inability to continue operating or otherwise undermining the desired objectives of the Parties, (in these cases only Party A may terminate this Contract);

(iv) the Technology License Contract is materially breached by the licensor thereunder (in this case only the Party which are not the licensor or Affiliates of such licensor may terminate this Contract);

(v) the Company or any Party becomes bankrupt, is the subject of proceedings for liquidation or dissolution, ceases to carry on business or becomes unable to pay its debts as they become due;

(vi) the Company qualifies but is unable to secure or retain the appropriate certificate from the Examination and Approval Authorities granting the Company status as a Technologically Advanced Enterprise in an economic development area or as a Technologically Intensive or Knowledge Intensive Manufacturing Foreign Investment Enterprise and qualifying the Company for the 15% regular tax rate;

(vii) the Company is not allowed to import raw materials and equipment which it deems necessary to carry out its operations;

(viii) under the requirements specified in the relevant Chinese legal regulations, the Company is qualified but unable to obtain or retain duty and tax exemption on imported production equipment, spare parts, production tools, construction and production materials, and other necessary goods and "bonded" treatment on the imported raw materials for the Company's normal production use or is unable to obtain or retain approval of bonded factory, bonded manufacturing area, or bonded warehouse status when the import/export volume of the Company meets the requirements specified in the relevant Chinese regulations;

(ix) the other Party has failed to provide its contribution to the registered capital of the Company on or before the expiration of the time period stipulated in Article 5.04(b) or 5.08 hereof;

(x) the other Party transfers its share of the registered capital in the Company in violation of the provisions of this Contract;

(xi) the conditions or consequences of Force Majeure (as hereinafter defined in Article 20) significantly interfere with the normal functioning of the Company for a period in excess of six (6) months causing the Company's inability to continue operating or otherwise undermines the desired objectives of the Parties, and the Parties have been unable to find an equitable solution pursuant to Article 21 hereof;

(xii) if the Board determines that the Company is unable obtain its desired objectives such as quantity, quality, cost, rate of production, supply of regional market preferences or requirements, delivery needs or any other objective;

(xiii) if market conditions change such that the Board determines that the Company may no longer sell Joint Venture Products on a competitive basis;

(xiv) the Parties cannot implement the economic adjustment set forth in Article 22.02.

(d) In the event that any Party gives notice pursuant to Article 18.01(c) hereof of a desire to terminate this Contract, the Parties shall within a two (2)-month period after such notice is given conduct negotiations and endeavor to resolve the situation which resulted in the giving of such notice. In the event matters are not resolved to the satisfaction of all the Parties within two (2) months of such notice or any non-notifying Party definitely refuses to commence negotiations within the period stated above, each Party shall cause its appointed directors to vote to terminate this Contract, and the Board shall submit a termination application to the Examination and Approval Authority for approval.

(e) For purposes of this Article 18, the "date of termination" shall be (i) the date of expiration of the Joint Venture Term, if the termination is effected pursuant to paragraph (a) above; (ii) the date of the written agreement of the Parties, if the termination is effected pursuant to paragraph (b) above; or (iii) the date that the Board votes to terminate this Contract, if the termination is effected pursuant to paragraph (c) above.

18.02 Buy-out Options

(a) In the event that any Party gives notice pursuant to Article 18.01(c) hereof of a desire to terminate this Contract, the other Party (except for the Party in breach or is bankrupt or insolvent) shall have the right to purchase the equity interest of such Party in proportion to their respective interests in the registered capital. A Party that wishes to exercise such buy-out option shall notify the other Party in writing of its decision no later than thirty (30) days after the end of the two-month negotiation period referred to in Article 18.01(d).

(b) In the event that this Contract is terminated pursuant to Article 18.01(a) or 18.01(b) hereof, any Party shall have the option to purchase the equity interest of the other Party. A Party that wishes to exercise such buy-out option shall notify the other Party in writing of its decision no later than thirty (30) days after the date of termination.

(c) Absent any buy-out notice, the Parties shall liquidate the Company in accordance with applicable law and Article 18.03 hereof.

(d) In the event a buy-out option is exercised, the Parties shall within two (2) weeks of receipt of the buy-out notice jointly appoint one Sino-foreign joint venture accounting or appraisal firm qualified in China to value the Company. All costs and expenses of such accounting or appraisal firm shall be borne equally by Party A and Party B.

(e) The valuation of the Company as provided in paragraph (d) above shall be completed within four (4) weeks and shall be based on the assumption that (i) the Company shall continue as a going concern and (ii) subject to the terms and conditions of and to the extent permitted by the relevant agreements, the Company shall enjoy the right to use the Site and the Plant and the right to use the technology and know-how provided to the Company by each of the Parties.

(f) The purchase price shall be equal to an amount determined by multiplying the value of the Company by the percentage of registered capital then held by the selling Party.

(g) The purchase price shall be paid to the selling Party within sixty (60) days after the business license is re-issued. If Party B is the selling Party, the purchase price shall be paid in United States Dollars.

(h) Upon a buy-out pursuant to this Article 18.02, each Party agrees to take (and to cause the Company and the Board to take) whatever action may be necessary to consummate such buy-out, including but not limited to (i) obtaining the approval of the Examination and Approval Authority and all

other necessary approvals, (ii) in the case of a buy-out of Party A, taking all actions required to convert the Company into a wholly foreign-owned enterprise, and (iii) causing the Business License and registration records of the Company to be changed or canceled with SAIC.

18.03 Liquidation

(a) If the Parties are required to liquidate the Company pursuant to Article 18.02(c) hereof, or if the Parties otherwise agree that the Company shall no longer operate as a going concern, then the Board shall, within a period of thirty (30) days, appoint a liquidation committee which shall have the power to represent the Company in all legal matters. The liquidation committee shall value and liquidate the Company's assets in accordance with the Foreign Investment Enterprises Liquidation Procedures and other applicable Chinese law and regulations and the principles set out herein.

(b) The liquidation committee shall consist of five (5) members, of which two (2) members shall be nominated by Party A, and three (3) members including the chairman of the liquidation committee shall be nominated by Party B. Members of the liquidation committee may, but need not be, Board directors or senior employees of the Company. When permitted by Chinese law or regulations, each Party may also appoint professional advisors to be members of or to assist the liquidation committee. The Board shall report the formation of the liquidation committee to the department in charge of the Company. In principle, the liquidation committee shall resolve all issues by consensus. In the event that consensus cannot be reached, matters shall be decided by a majority vote of all members of the liquidation committee.

(c) The liquidation committee shall conduct a thorough examination of the Company's assets and liabilities, on the basis of which it shall, in accordance with the relevant provisions of this Contract, develop a liquidation plan which, if approved by the Board, shall be executed under the liquidation committee's supervision. The liquidation plan shall provide that the Parties will have the right to purchase any of the machinery and equipment and other facilities on a priority basis. In the event that two or more Parties offer the same terms and conditions for such purchases, competitive bidding shall take place. If the Company is liquidated, ON shall have the right to terminate the Technology License Contract and Party A shall have the right to terminate the Services Contract so that these contracts shall not be deemed to be assets of the Company.

(d) In developing and executing the liquidation plan, the liquidation committee shall use every effort to obtain the highest possible price in United States Dollars for the Company's assets.

(e) The liquidation expenses, including remuneration to members and advisors to the liquidation committee, shall be paid out of the Company's assets in priority to the claims of other creditors.

(f) After the liquidation of the Company's assets and the settlement of all of its outstanding debts, the balance shall be divided and paid over to Party A, and

Party B in proportion to their respective shares of the registered capital of the Company.

(g) On completion of all liquidation procedures, the liquidation committee shall submit a final report approved by an independent accountant registered abroad or in China to the Examination and Approval Authority, hand in the Business License to the original registration authority and complete all other formalities for canceling the Company's registration. Party B shall have the right to obtain copies of all of the Company's accounting books and other documents at its own expense, but the originals thereof shall be left in the care of Party A.

(h) Party A hereby agrees Party B shall have priority in obtaining the foreign currency portion of the balance to be distributed under paragraph (f) above.

18.04 Continuing Obligations

The obligations and benefits stipulated in the confidentiality provisions of Article 16, in the provisions on settlement of disputes of Article 21 and in the provisions on termination and liquidation of this Article 18 shall survive the termination of this Contract with approval from the relevant authorities of the PRC government and the termination, dissolution or liquidation of the Company.

ARTICLE 19 - BREACH OF CONTRACT

19.01 Liability for Breach of Contract

In the event that a breach of contract committed by a Party to this Contract results in the non-performance of or inability to fully perform this Contract or its Appendices, the liabilities arising from the breach of contract shall be borne by the Party in breach as provided in this Contract and its Appendices. In the event that a breach of contract is committed by more than one Party, each such Party shall bear its individual share of the liabilities arising from the breach of contract.

19.02 Limitations on Liability

Notwithstanding the foregoing, and except for any liability arising under Article 11 hereof, the aggregate liability of each Party under this Contract shall not exceed such Party's investment in the registered capital of the Company.

ARTICLE 20 - FORCE MAJEURE

20.01 Definition of Force Majeure

"Force Majeure" shall mean any event which is beyond the control of the affected Party, and which is unforeseen, unavoidable or insurmountable, and which arises after the Effective Date and which prevent total or partial performance by such Party. Such events shall include earthquakes, typhoons, flood, fire, war, failures of international or domestic transportation, acts of government or public agencies, epidemics, civil disturbances, strikes or any other events which cannot be foreseen, prevented or controlled, including events which are accepted as Force Majeure in general international commercial practice.

20.02 Consequences of Force Majeure

(a) If an event of Force Majeure occurs, a Party's contractual obligations affected by such an event under this Contract shall be suspended during the period of delay caused by the Force Majeure.

(b) The Party claiming Force Majeure shall promptly inform the other Party in writing and shall furnish the other Party within fifteen (15) days thereafter sufficient proof of the occurrence and duration of such Force Majeure. The Party claiming Force Majeure shall also use all reasonable endeavors to eliminate or mitigate the effects of such Force Majeure.

(c) In the event of Force Majeure, the Parties shall immediately consult with each other in order to find an equitable solution and shall use all reasonable endeavours to minimize the consequences of such Force Majeure.

ARTICLE 21 - SETTLEMENT OF DISPUTES

21.01 Friendly Consultations

In the event any dispute arises between the Parties out of or in relation to this Contract, including any dispute regarding its breach, termination or validity, the Parties shall attempt in the first instance to resolve such dispute through friendly consultations.

21.02 Joint Conciliation

If the dispute has not been resolved by friendly consultations within sixty (60) days after one Party has served written notice on the other Party or Parties requesting the commencement of such consultations, then the Parties shall attempt to reach a settlement through conciliation conducted in Beijing in accordance with the Conciliation Rules of the Beijing Conciliation Center of the China International Economic and Trade Arbitration Commission. If the dispute is resolved through conciliation, the Parties agree to enter into a written settlement contract.

21.03 Arbitration

If the dispute is not resolved pursuant to Article 21.02 within sixty (60) days after conciliation proceedings have commenced, or if a Party fails to comply with any settlement reached by conciliation conducted pursuant to Article 21.02 within sixty (60) days after a settlement is reached, then

(a) any Party involved may submit the dispute for arbitration in Stockholm at the Arbitration Institute of the Stockholm Chamber of Commerce in accordance with the Arbitration Rules of that Institute with instructions that the arbitration be conducted in English and that the arbitrators may refer to both the English and Chinese texts of this Joint Venture Contract;

(b) there shall be three (3) arbitrators all of whom shall be fluent in English and Mandarin. Party A shall select one (1) arbitrator, and Party B shall select one (1) arbitrator. The third arbitrator shall be appointed by agreement between the arbitrators selected by Party A and Party B and such third arbitrator shall serve as chairman of the panel;

(c) the arbitration award shall be final and binding on the Parties and shall be enforced in accordance with its terms;

(d) the arbitration fee shall be borne by the losing party, unless otherwise decided by the arbitration award.

(e) each Party may require the other Party to enter into a written contract which sets forth the terms of the arbitration award.

21.04 Continuous Performance of Joint Venture Contract

In the course of the arbitration, this Contract shall be continuously performed in accordance with its terms and the Articles of Association except for the part which is under, or which is directly and substantially affected by, the arbitration.

21.05 Enforceability of Award

Any award of the arbitrators shall be enforceable by any court having jurisdiction over the Party against which the award has been rendered, or wherever assets of the Party against which the award has been rendered can be located, and such award shall be enforceable in accordance with the "United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958)" (except where reservations are made by the People's Republic of China).

21.06 Jurisdiction of Chinese Courts

Any dispute arising under this Contract shall be settled in accordance with this Article 21, except that either party may apply to the courts of China to enforce an arbitration award rendered or contract executed in accordance with this Article.

ARTICLE 22 - APPLICABLE LAW

22.01 Applicable Law

The formation, validity, interpretation and implementation of this Contract shall be governed by the laws of the People's Republic of China which are published and publicly available, but in the event that there is no published and publicly available law in China governing a particular matter relating to this Contract, reference shall be made to general international commercial practices.

22.02 Economic Adjustment

If any Party's or the Company's economic benefits are adversely and materially affected by the promulgation of any new laws, rules or regulations of China or the amendment or interpretation of any existing laws, rules or regulations of China after the signature date of this Contract, or if the Company subsequently fails to continue to qualify for preferential treatment, the Parties shall promptly consult with each other and use their best endeavors to implement any adjustments necessary to maintain each Party's and the Company's economic benefits derived from this Contract on a basis no less favorable than the economic benefits it would have derived if such laws, rules or regulations had not been promulgated, amended or so interpreted. If the economic

benefits approved by the Parties following consultations cannot be obtained after such adjustments are implemented, a Party may terminate this Contract under Article 18.

22.03 Preferential Treatment

The Company and the Parties shall be entitled according to the law to any tax, investment or other benefits or preferences that become available or publicly known after the signing of this Contract and which are more favorable than those set forth in this Contract.

22.04 Continuity of Contract

The Parties agree that in the event of the promulgation of any new laws, rules or regulations of China, this Contract shall continue to be performed in accordance with its terms to the largest extent permitted under PRC law.

ARTICLE 23 - MISCELLANEOUS PROVISIONS

23.01 Non-Competition

Because the Company will be manufacturing components with commodity characteristics, the Parties agree that Party A or Party B shall not, directly or indirectly, through any other joint venture, manufacture in China the Joint Venture Products including the New Products listed in Appendix A that are being manufactured and to be manufactured by the Company, unless the Company cannot meet demand for such products (whether due to demands of quantity, quality, cost, rate of production, regional market preferences or requirements, delivery needs or any other reason).

In order to strengthen their relationship with Party A, Party B and its' Affiliates have no present intention of producing the products in Appendix A in China other than through the Company unless the Company cannot meet demand for such products.

In order to strengthen its relationship with Party B, Party A is willing to give Party B first right of refusal for Party A's future semi-conductor projects. Party A shall give written notice to Party B describing such project. Party B shall have sixty (60) days to either agree to participate therein or to decline to participate and Party B shall be deemed to have declined if it fails to respond in such time. If Party B declines to participate, Party A may conduct such activities on its own or with other parties on the terms described to Party B.

23.02 Waiver

To the extent permitted by Chinese law or regulations, failure or delay on the part of any Party hereto to exercise a right, power or privilege under this Contract and the Appendices hereto shall not operate as a waiver thereof; nor shall any single or partial exercise of a right, power or privilege preclude any other future exercise thereof.

23.03 Assignability

This Contract may not be assigned in whole or in part by any Party without the prior written consent of each of the other Party hereto and the approval of the Examination and Approval Authority.

23.04 Binding Effect

This Contract is made for the benefit of each of the Parties and their respective lawful successors and assignees and is legally binding on them. This Contract may not be changed orally, but only by a written instrument signed by each of the Parties and approved by the Examination and Approval Authority.

23.05 Severability

Subject to the provisions of Article 22.02 hereof, the invalidity of any provision of this Contract shall not affect the validity of any other provision of this Contract.

23.06 Language

This Contract is executed in the Chinese language in four (4) originals and in the English language in four (4) originals. Both language versions shall be equally authentic.

23.07 Entire Agreement

This Contract and the Appendices hereto constitute the entire agreement among Party A and Party B with respect to the subject matter of this Contract and supersede all prior discussions, negotiations and agreements among them. In the event of any conflict between the terms and provisions of this Contract, the Articles of Association and the Feasibility Study, the terms and provisions of this Contract shall prevail.

23.08 Notices

Any notice or written communication provided for in this Contract by one Party to the other Party, including but not limited to any and all offers, writings, or notices to be given hereunder, shall be made in English or Chinese by facsimile, or by courier service delivered letter, promptly transmitted or addressed to the appropriate Party. The date of receipt of a notice or communication hereunder shall be deemed to be fifteen (15) days after the letter is given to the courier service in the case of a courier service delivered letter and one (1) working day after dispatch of a facsimile if evidenced by a transmission report. All notices and communications shall be sent to the appropriate address set forth below, until the same is changed by notice given in writing to the other Party.

PARTY A:

Leshan Radio Company, Ltd.
27 West People's Road
Leshan, Sichuan Province 614000
People's Republic of China
Attention: Chairman

Facsimile No: 86-833-213-2060

PARTY B:

SCG (China) Holding Corporation
5005 East McDowell Road
Phoenix, Arizona 85008
U.S.A.
Attention: General Counsel

Facsimile No: 1-602-244-5500

The sending Party shall send confirmation to the other Party by telephone or facsimile at an appropriate time.

23.09 Appendices

The Appendices hereto listed below are made an integral part of this Contract and are equally binding with these Articles 1 through 23.

List of Joint Venture Products	(Appendix A)
Schedule of Capital Contributions	(Appendix B)

23.10 Effectiveness

This Contract shall become effective on the Effective Date.

23.11 Counterparts

This Contract may be executed in one or more counterparts, including counterparts transmitted by facsimile or electronic transmission, all of which together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, each of the Parties hereto has caused this Contract to be executed by their duly authorized representatives on the date first set forth above.

LESHAN RADIO COMPANY, LTD.

By: /s/ Pan Min-Zhi (4-20-2006)
Name: Pan Min-Zhi
Title: Chairman of the Board

SCG (CHINA) HOLDING CORPORATION

By: /s/ Keith Jackson (4-20-06)
Name: Keith Jackson
Title: Chairman and President

Appendix A

LIST OF JOINT VENTURE PRODUCTS

Assembly Test Products

SOT23, SC59, SC 88, SC75, SC89, SC70, SOD323, SOIC, SOD523, SOD723, SC74, SOT723, SOD923 and other miniature surface mount semiconductor packages.

Wafer Fab Products

IC and Discrete wafers

Appendix B

SCHEDULE OF CAPITAL CONTRIBUTIONS

The total amount of the registered capital of the Company is US$101.86 million. The contribution payment shall be completed in ten years, subject to market conditions, by the end of July 24, 2012. As of the date hereof, the Parties have paid in US$61.66 million. The specific timing and amounts for each future installment payment by each Party shall be determined by the decision of the Board of the Company.

Exhibit 10.4

EXECUTION COPY

AMENDMENT (this "Amendment") dated as of March 3, 2006, to the Amended and Restated Credit Agreement dated as of August 4, 1999, as amended and restated as of February 6, 2006 (as amended, supplemented or otherwise modified from time to time prior to the date hereof, the "Credit Agreement"), among ON SEMICONDUCTOR CORPORATION ("Holdings"), SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC (the "Borrower"), the LENDERS party thereto, and JPMORGAN CHASE BANK, N.A., as administrative agent.

A. Pursuant to the Credit Agreement, the Lenders have extended credit to the Borrower, and have agreed to extend credit to the Borrower, in each case pursuant to the terms and subject to the conditions set forth therein.

B. Holdings and the Borrower have requested that the Lenders agree to amend certain provisions of the Credit Agreement as set forth below.

C. The undersigned Lenders are willing so to amend the Credit Agreement pursuant to the terms and subject to the conditions set forth herein.

D. Capitalized terms used but not defined herein have the meanings assigned to them in the Credit Agreement, as amended hereby.

Accordingly, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, and subject to the conditions set forth herein, the parties hereto hereby agree as follows:

SECTION 1. Amendments of Section 2.11. Paragraph (d) of Section 2.11 of the Credit Agreement is amended by deleting such paragraph in its entirety and substituting in lieu thereof the following:

> (d) Following the end of each fiscal year of the Borrower, the Borrower shall prepay Term Borrowings in an aggregate amount equal to 50% of Excess Cash Flow for such fiscal year. Each prepayment pursuant to this paragraph shall be made within five Business Days after the date on which financial statements are delivered pursuant to Section 5.01 with respect to the fiscal year for which Excess Cash Flow is being calculated (and in any event within five Business Days after the date that is 90 days after the end of such fiscal year). Notwithstanding the foregoing, any Term Lender may elect, by notice to the Administrative Agent by telephone (confirmed by telecopy) at least one Business Day prior to the prepayment date, to decline all or any portion of any prepayment of its Term Loans pursuant to this paragraph (d).

SECTION 2. Representations and Warranties. Each of Holdings and the Borrower represents and warrants to the Administrative Agent and to each of the Lenders that:

(a) This Amendment has been duly authorized, executed and delivered by each of Holdings and the Borrower and constitutes a legal, valid and binding obligation of Holdings and the Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(b) After giving effect to this Amendment, each of the representations and warranties of Holdings and the Borrower set forth in the Loan Documents is true and correct on and as of the date hereof, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties are true and correct as of such earlier date.

(c) Immediately after giving effect to this Amendment, no Default shall have occurred and be continuing.

SECTION 3. Conditions to Effectiveness. This Amendment shall become effective on the date that the following conditions shall have occurred (which date shall not be later than March 3, 2006): (a) the Administrative Agent shall have received counterparts of this Amendment that, when taken together, bear the signatures of Holdings, the Borrower and the Required Lenders, and (b) all fees and other amounts due and payable in connection with this Amendment or the Credit Agreement, including, to the extent invoiced in writing to the Borrower at least two Business Days prior to such date, reimbursement or payment of all reasonable, documented, out-of-pocket expenses (including fees, charges and disbursements of counsel or other advisors) required to be paid or reimbursed by any Loan Party, shall have been paid or reimbursed, as applicable.

SECTION 4. Credit Agreement. Except as specifically amended hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Credit Agreement shall mean the Credit Agreement as amended or modified hereby. This Amendment shall be a Loan Document for all purposes.

SECTION 5. Applicable Law; Waiver of Jury Trial. (A) THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

(B) EACH PARTY HERETO HEREBY AGREES AS SET FORTH IN SECTION 9.10 OF THE CREDIT AGREEMENT AS IF SUCH SECTION WERE SET FORTH IN FULL HEREIN.

SECTION 6. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one agreement. Delivery of an executed signature page to

this Amendment by facsimile or other electronic transmission shall be effective as delivery of a manually signed counterpart of this Amendment.

SECTION 7. Expenses. The Borrower agrees to reimburse the Administrative Agent for its reasonable, documented, out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore LLP, counsel for the Administrative Agent.

SECTION 8. Headings. The Section headings used herein are for convenience of reference only, are not part of this Amendment and are not to affect the construction of, or to be taken into consideration in interpreting, this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

ON SEMICONDUCTOR CORPORATION,

By /s/ DONALD A. COLVIN
Name: Donald A. Colvin
Title: Senior Vice President and
Chief Financial Officer

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC,

By /s/ DONALD A. COLVIN
Name: Donald A. Colvin
Title: Senior Vice President and
Chief Financial Officer

JPMORGAN CHASE BANK, N.A.,
individually and as administrative agent,

By /s/ DAVID M. MALLETT
Name: David M. Mallett
Title: Vice President

SIGNATURE PAGE TO AMENDMENT AND WAIVER DATED AS OF MARCH 3, 2006, TO THE CREDIT AGREEMENT DATED AS OF AUGUST 4, 1999, AS AMENDED AND RESTATED AS OF FEBRUARY 6, 2006, AMONG ON SEMICONDUCTOR CORPORATION, SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC, THE LENDERS PARTY THERETO, AND JPMORGAN CHASE BANK, N.A., AS ADMINISTRATIVE AGENT

Name of Institution: ___________________

By ____________________________________

Name:

Title:

[Multiple signature pages of the various lending institutions make up the remainder of the amendment and are not reproduced here.]

Exhibit 31.1

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 we 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 an annual 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 data; 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: July 28, 2006

/s/ KEITH D. JACKSON

Keith D. Jackson
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald 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 we 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 an annual 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 data; 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: July 28, 2006

/s/ DONALD COLVIN

Donald Colvin
Chief Financial Officer

Exhibit 32.1

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 30, 2006 ("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 Form10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 28, 2006

/s/ KEITH D. JACKSON
Keith D. Jackson
President and Chief Executive Officer

Dated: July 28, 2006

/s/ DONALD COLVIN
Donald 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.)