

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

000-30419

(Commission File Number)

ON Semiconductor Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

36-3840979

(I.R.S. Employer
Identification No.)

5005 E. McDowell Road

Phoenix, AZ 85008

(602) 244-6600

(Address and telephone number of principal executive offices)

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common stock, par value \$0.01 per share

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained therein, and will not be contained to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was \$139,263,824 as of June 30, 2003, based on the closing sale price of such stock on the Nasdaq National Market on that date. Shares held by executive officers, directors and persons owning directly or indirectly more than 10% of the outstanding common stock have been excluded from the preceding number because such persons may be deemed to be affiliates of the registrant.

The number of shares of the registrant's common stock outstanding at March 1, 2004 was 252,832,460.

Documents Incorporated by Reference

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 19, 2004 are incorporated by reference into Part III hereof.

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PART I

Item 1. Business

Business Overview

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

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 17,000 products and we shipped approximately 25.4 billion units in 2003. 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.

We have approximately 200 direct customers worldwide, and we also service approximately 300 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 Alcatel, Intel, Motorola, Nokia, Philips, 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 design operations in Arizona, Rhode Island, Texas, China, the Czech Republic and France, and we currently operate manufacturing facilities in Arizona, Rhode Island, China, the Czech Republic, Japan, Malaysia, the Philippines and Slovakia.

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

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our common stock, the recapitalization did not impact the basis of our assets and liabilities for financial reporting purposes. At the time of the recapitalization, Motorola agreed to provide us with transition and manufacturing services in order to facilitate our transition to a stand-alone company independent of Motorola.

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

On May 3, 2000, we completed the initial public offering of our common stock, selling 34.5 million shares with an issue price of \$16 per share. Net proceeds from the initial public offering (after deducting issuance costs) were approximately \$514.8 million. The net proceeds were used to redeem all outstanding preferred stock (including accrued dividends), redeem a portion of the senior subordinated notes and prepay a portion of the loans outstanding under the senior bank facilities. (See Note 11 "Common Stock" of the notes to our audited consolidated financial statements elsewhere in this report.)

On September 7, 2001, we obtained \$100.0 million (\$99.2 million, net of issuance costs) through an equity investment by an affiliate of Texas Pacific Group, our principal shareholder. In this transaction, we issued 10,000 shares of mandatorily redeemable cumulative convertible preferred stock. This investment was required because we were not in compliance with certain minimum interest expense coverage ratio and leverage ratio covenants under our senior bank facilities. (See Note 7 "Long-Term Debt" and Note 10 "Redeemable Preferred Stock" of the notes to our audited consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case included elsewhere in this report.)

Since our 1999 recapitalization, we have had relatively high levels of long-term debt as compared to our principal competitors. We reduced our total debt and interest expense as a result of two recent public offerings of common stock in September 2003 and February 2004, a portion of the proceeds from which we applied to prepay and redeem a portion of our outstanding debt prior to scheduled maturity. 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 7 "Long-Term Debt" and Note 11 "Common Stock" of the notes to our audited consolidated financial statements included elsewhere in this report for further details on these financing activities.

Since the fourth quarter of 2000, we have been implementing a profitability enhancement program 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. As a result of the elements of this program that we started in June 2001 and completed in the fourth quarter of 2002 (the 2000 plan), we achieved approximately \$365 million of annualized cost savings, based on a comparison of our cost structure during the first quarter of 2001 to our cost structure during the third quarter of 2002. As a result of additional cost cutting commenced in the fourth quarter of 2002, which was completed during the fourth quarter of 2003 (the 2002 plan), we believe that we achieved an estimated \$114 million of cost savings in 2003, as compared to our cost structure during the third quarter of 2002, and we expect to achieve an estimated \$151 million of annual costs savings beginning in 2004 from the 2002 plan. These savings are as a result of our manufacturing rationalization plan, reductions in non-manufacturing personnel and other cost controls. Our manufacturing rationalization plan included movement of our manufacturing operations from high cost regions in North America to lower cost regions in Asia and Central Europe. As a result, approximately 79% of our cost of goods sold in 2003 related to our manufacturing operations outside of North America. More recently, we announced that we intend to phase out our manufacturing operations in East Greenwich, R.I. and our assembly and test operations in the Czech Republic. We estimate these activities will be complete by the end of 2004.

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Products and Technology

The following table provides information regarding our primary product lines:

	Power Management and Standard Analog	MOS Power Devices	High Frequency Clock and Data Management	Standard Components
Approximate total revenues				
2003	\$333 million	\$153 million	\$80 million	\$503 million
2002	\$363 million	\$139 million	\$72 million	\$520 million
2001	\$365 million	\$147 million	\$118 million	\$593 million
Primary product function	Power control and regulation in portable and high-power applications.	Power conditioning and switching in a broad range of applications.	Interfacing and synchronizing functions, such as interconnecting and routing (moving) electronic signals within electronic systems.	Power control, interface, and data protection in a broad range of products.
Sample applications	Intelligent power management and battery protection in portable applications, desktop computers and automotive electronics.	Power management for computers, automobiles, servers, and battery protection in portable applications.	Fast routing of signals used in communication and networking switches, high-end servers, high-performance workstations, storage networks and precision measurement test systems.	Power management and interface elements for computer, consumer and portable equipment and automotive control systems.
Types of product	Amplifiers, comparators, voltage regulators and references, AC-DC/DC-DC converters.	Ignition insulated gate bipolar transistors (IGBT's), power MOS field effect transistors (MOSFET's).	Clock distribution, drivers/receivers, multiplexers, phase detectors, prescalers.	MicroIntegration™, MiniGate™ logic, small signal transistors, zeners, rectifiers, standard logic integrated circuits, bipolar power transistors, small signal diodes and thyristors.
Representative original equipment manufacturers customers and end users	Alcatel Delphi Delta Intel Motorola Nokia Philips Siemens Sony Visteon	Delphi Ericsson Hewlett-Packard IBM Intel Microsoft Motorola Seagate Sony Visteon	Alcatel Cisco Systems Ericsson Fujitsu Hewlett-Packard Lucent Technologies Motorola Nokia Nortel Networks Siemens	DaimlerChrysler Delphi Delta Intel Motorola Nokia Philips Siemens Sony Visteon

Power Management and Standard Analog. One of the fastest growing segments within the analog market is power management. We are one of the largest suppliers of power management analog products. We have a complete power management portfolio in the six major product categories, which include DC/DC converters, AC/DC converters, linear regulators, pulse width modulation (PWM)/power factor modulation (PFM) controllers, power factor controller (PFC) pre-regulators and battery charging/management integrated circuits. Our products are engineered and manufactured to meet the power management needs of high-performance applications in the wireless, automotive and computing markets. Specifically in the computing market, we design controllers that meet the power requirements for today's advanced microprocessors.

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MOS Power Devices. We are a global supplier of power devices and ignition insulated gate bipolar transistors (IGBT's). We have a complete power management portfolio of devices ranging from 8V up to 400V. Our products are engineered and manufactured to meet the power management needs of high-performance applications in the wireless, automotive and computing markets. We are advancing our portfolio to include multi function IC's and multi chip modules for the automotive and computing markets.

High Frequency Clock and Data Management. Our high frequency clock and data management products consist primarily of high margin emitter-coupled logic products. We are the market leader in this area with a market share in excess of 75%. We design and deliver application-specific integrated circuits using advanced technologies that address the high-performance needs of networking infrastructure, advanced test equipment and high end computing. Our extensive clock and data management portfolio, led by our GigaComm family, is designed into state-of-the-art systems such as communication and networking switches, high-end servers, high-performance work stations, storage networks and precision measurement test systems. We enable application specific designs for today's advanced networks, including Asynchronous Transfer Mode (ATM), Enterprise Networks, Storage Area Networks (SAN) and Internet Protocol (IP) applications.

Standard Components. We are a global supplier of standard semiconductors. We have special competencies in manufacturing surface mount packages. Our broad product line includes MicroIntegration™, MiniGate™ logic, small signal transistors and diodes, zeners, rectifiers, standard logic integrated circuits, bipolar power transistors and thyristors. Standard components are essential in substantially all modern pieces of electronic equipment, including computers, printers, wireless communication devices, DVD and MP3 players, video game consoles, and automotive navigation systems.

Customers

We have been doing business with 46 of our 50 largest customers for more than five years. Sales agreements with customers are renewable periodically and contain certain terms and conditions with respect to payment, delivery, warranty and supply but do not require minimum purchase commitments. Most of our original equipment manufacturer customers negotiate pricing terms with us on an annual basis near the end of the calendar year while our other customers generally negotiate pricing terms with us on a quarterly basis. Our products are ultimately purchased for use in a variety of end markets: computing, automotive electronics, consumer electronics, industrial electronics, wireless communications and networking. Sales to our largest customers, Arrow, Avnet and Motorola, accounted for approximately 9%, 13% and 7%, respectively, of our total revenue during 2003, as compared to 10%, 10% and 8% during 2002.

We generally warrant that products sold to our customers will, at the time of shipment, be free from defects in workmanship and materials and conform to our approved specifications. Subject to certain exceptions, our standard warranty extends for a period that is the greater of (1) three years from the date of shipment or (2) the period of time specified in the customer's standard warranty (provided that the customer's standard warranty is stated in writing and extended to purchasers at no additional charge). Warranty expense to date has been minimal. Generally, our customers may cancel orders 30 days prior to shipment without incurring a significant penalty. For additional information regarding agreements with our customers, see "Backlog" below.

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The following table sets forth our principal end-user markets, the estimated percentage (based in part on information provided by our distributors and electronic manufacturing service providers) of our total revenues generated from each end-user market during 2003, sample applications for our products and representative original equipment manufacturer customers and end users.

End Markets for Our Products

	Computing	Automotive Electronics	Consumer Electronics	Industrial Electronics	Wireless Communications	Networking
Approximate percentage of our 2003 total revenues	24%	23%	17%	16%	13%	7%
Sample applications	<ul style="list-style-type: none"> •Computer monitors •Disk drives •PC motherboards •Notebook power supplies 	<ul style="list-style-type: none"> •4 wheel drive controllers •Airbags •Antilock braking systems •Automatic door locks and windows •Automatic transmissions •Automotive entertainment systems •Engine management and ignition systems •Fuel injection systems •GPS and other navigation systems •LIN/CAN multiplexing 	<ul style="list-style-type: none"> •DVD players, cable decoders, set-top boxes and satellite receivers •Home security systems •Photocopiers •Scanners •Small household appliances •Smartcards •TVs, VCRs and other audio-visual equipment •Power supplies for consumer electronics 	<ul style="list-style-type: none"> •Industrial automation and control systems •Lamp ballasts (power systems for fluorescent lights) •Large household appliances •Electric motor controllers •Power supplies for manufacturing equipment •Surge protectors •Thermostats for industrial and consumer applications •Automatic test equipment 	<ul style="list-style-type: none"> •Cellular phones (analog and digital) •Pagers •Wireless modems and wireless local area networks 	<ul style="list-style-type: none"> •Routers and switches •Fiber optic networking •Cellular base stations and infrastructure •Ethernet cards and other network controllers •High speed modems (cable, xDSL and ISDN) •PBX telephone systems •Network controllers
Representative original equipment manufacturer customers and end users	ACER Apple Dell Delta Hewlett-Packard Intel NEC Seagate	Bosch DaimlerChrysler Delphi Motorola Siemens TRW Visteon	Gemplus Philips Samsung Scientific Atlanta Sony Thompson Vestel Haier	Advantest Artesyn Astec Delta Electronics Honeywell Siecor Tyco	Goldstar Mitsubishi Motorola Nokia Sagem Sony TCL Comm. Zhongyeng	Alcatel Cisco ECI Telecom Ericsson Fujitsu Hitachi Lucent Nortel Siemens

Original Equipment Manufacturers. Direct sales to original equipment manufacturers accounted for approximately 42% of our revenues in 2003, approximately 48% in 2002, and approximately 47% in 2001. These customers include a variety of companies in the electronics industry such as Alcatel, Intel, Motorola, Nokia, Philips, Siemens and Sony, and in the automotive industry such as DaimlerChrysler, Delphi, TRW and Visteon. We focus on three types of original equipment manufacturers: multi-nationals, selected regional accounts and target market customers. Large multi-nationals and selected regional accounts, which are significant in specific markets, are our core original equipment manufacturer customers. The target market customers in the communications, power management and standard analog and the high frequency clock and data management markets are original equipment manufacturers that are on the leading edge of specific technologies

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and provide direction for technology and new product development. Generally, our original equipment manufacturer customers do not have the right to return our products other than pursuant to the provisions of our standard warranty.

Distributors. Sales to distributors accounted for approximately 47% of our revenues in 2003, approximately 41% in 2002, and approximately 43% in 2001. Our distributors, which include Arrow, Avnet, EBV Elektronik, Future, Solomon Enterprise and World Peace resell to mid-sized and smaller original equipment manufacturers and to electronic manufacturing service providers and other companies. Sales to distributors are typically made pursuant to agreements that provide return rights with respect to discontinued or slow-moving products. Under certain agreements, distributors are allowed to return any product that we have removed from our price book or that is more than four years older than the manufacturing code date. In addition, agreements with our distributors typically contain standard stock rotation provisions permitting limited levels of product returns. However, since we defer recognition of revenue and gross profit on sales to distributors until the distributor resells the product, sales returns have minimal impact on our profits.

Electronic Manufacturing Service Providers. Direct sales to electronic manufacturing service providers accounted for approximately 11% of our revenues in 2003, approximately 11% in 2002 and approximately 10% in 2001. Our largest electronic manufacturing service customers are Flextronics, Jabil and Solectron. These customers are manufacturers who typically provide contract manufacturing services for original equipment manufacturers. Originally, these companies were involved primarily in the assembly of printed circuit boards, but they now typically provide design, supply management and manufacturing solutions as well. Many original equipment manufacturers now outsource a large part of their manufacturing to electronic manufacturing service providers in order to focus on their core competencies. We are pursuing a number of strategies to penetrate this increasingly important marketplace.

Manufacturing Operations

We operate our manufacturing facilities either directly or through a joint venture. Five of these are front-end wafer facilities located in Japan, Slovakia, Malaysia and the United States; three are back-end assembly and test facilities located in China, Malaysia and the Philippines; and one is an integrated front-end and back-end facility located in the Czech Republic. In addition to these manufacturing and assembly operations, our facility in Roznov, Czech Republic manufactures raw wafers that are used by a number of our facilities.

During 2001, we decided to shut down our integrated facility in Guadalajara, Mexico and transfer the front-end and back-end manufacturing to other owned and contracted locations. Accordingly, the Guadalajara, Mexico facility ceased operations in the second quarter of 2002 and was sold in the third quarter of 2003. In November 2003, we announced our decision to discontinue our assembly and test operations at our site in Roznov, Czech Republic and move these operations to our facility in Seremban, Malaysia and to contract manufacturers. In December 2003, we announced our decision to phase out manufacturing operations at our facility in East Greenwich, R.I. We estimate this closure will be complete by the end of 2004. We plan to transfer most of the production of this facility to our lower cost manufacturing facilities outside of North America and the balance to lower cost contract manufacturers.

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The table below sets forth information with respect to the manufacturing facilities we operate either directly or through our joint venture, as well as the products produced at these facilities. The sizes of the locations represent the approximate gross square feet of each site's building and include, among other things, manufacturing, laboratory, warehousing, office, utility, support and unused areas.

<u>Location</u>	<u>Products</u>	<u>Size (sq. ft.)</u>
Integrated Facilities:		
Roznov, Czech Republic	Power Management, Standard Analog, and Standard Components	430,000
Front-end Facilities:		
Phoenix, Arizona	High Frequency Clock and Data Management — Standard Components	1,600,000
Aizu, Japan	MOS Power Devices, Power Management, Standard Analog and Standard Components	291,000
Piestany, Slovakia	Standard Components — MOS Power Devices	915,000
East Greenwich, Rhode Island	Power Management and Standard Analog	209,000
Seremban, Malaysia (Site-2)	Standard Components	102,000
Back-end Facilities:		
Leshan, China	Standard Components	264,000
Seremban, Malaysia (Site-1)	MOS Power Devices, Power Management, Standard Analog and Standard Components	281,000
Carmona, Philippines	High Frequency Clock and Data Management — Power Management and Standard Analog — Standard Components	192,000
Other Facilities:		
Roznov, Czech Republic	Silicon wafers	200,000

Our operations in the Czech Republic are held through a publicly traded Czech company, of which we owned approximately 90% of the outstanding equity interests as of December 31, 2003. We purchased 100%, 95% and 88% of the raw wafer output in 2003, 2002 and 2001, respectively, and purchased the entire output of the integrated facility for all three years. In 2001, we entered into a new seven-year agreement with this subsidiary pursuant to which we have agreed to purchase minimum amounts of product based on our forecasted quarterly requirements.

We operate a back-end manufacturing facility in Leshan, China. We own this facility through a joint venture company, Leshan-Phoenix Semiconductor Company Ltd of which we owned a majority of the outstanding equity interests as of December 31, 2003. Our joint venture partner, Leshan Radio Company Ltd. is a formerly state-owned enterprise. Pursuant to the joint venture agreement, requests for production capacity are made to the board of directors of Leshan by each shareholder of the joint venture. Each request represents a purchase commitment by the requesting shareholder, provided that the shareholder may elect to pay the cost associated with the unused capacity (which is generally equal to the fixed cost of the capacity) in lieu of satisfying the commitment. We committed to purchase 82%, 85% and 81% of Leshan's production capacity in 2003, 2002 and 2001, respectively, and are currently committed to purchase 86% of Leshan's expected production capacity in 2004. In 2003, 2002 and 2001, we incurred \$0.5 million, \$1.5 million and \$6.4 million in underutilization charges, respectively. As part of our manufacturing agreements with Leshan, we supply die used in the production process.

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The Leshan facility is one of our lowest cost manufacturing operations, and we anticipate that any future expansion of our manufacturing capacity would involve this facility, including the previously announced start of construction in August 2002 of a 6-inch wafer fabrication facility. In June 2002, we obtained approval from the Chinese government for the Leshan joint venture to invest up to \$231 million in semiconductor operations, which is in addition to the \$278 million originally approved. We have the ability to pace these expenditures at our discretion to meet market demand and therefore expect these investments to occur gradually over time.

Our manufacturing processes use many raw materials, including silicon wafers, copper lead frames, mold compound, ceramic packages and various chemicals and gases. We have no material agreements with any of our suppliers that impose minimum or continuing supply obligations and we obtain our raw materials and supplies from a large number of sources on a just-in-time basis. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Although we believe that supplies of the raw materials we use are currently and will continue to be available, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry.

We also use third-party contractors for some of our manufacturing activities, primarily for wafer fabrication and the assembly and testing of final goods. Our agreements with these contract manufacturers typically require us to forecast product needs and commit to purchase services consistent with these forecasts. In some cases, longer-term commitments are required in the early stages of the relationship. These contract manufacturers, including Amkor, PSI, AIT, ASE, KEC, Hynix, Liteon, Chartered and Phenitec, accounted for approximately 26%, 30% and 31% of our cost of sales in 2003, 2002 and 2001, respectively. The reductions in the use of third-party contractors reflect our efforts to improve internal capacity utilization under our manufacturing rationalization plan.

We entered into an agreement with Motorola to continue to provide manufacturing services to each other for limited periods of time following our 1999 recapitalization. We negotiated fixed prices with Motorola for the services covered by these agreements to approximate each party's cost of providing the services. For 2003, 2002, and 2001, Motorola purchased \$3.4 million, \$1.4 million and \$8.2 million, respectively, of manufacturing services from us with no minimum purchase commitments going forward at this time. These purchases are classified as revenues in our financial statements. We purchased \$8.9 million, \$14.3 million and \$87.4 million of manufacturing services from Motorola in 2003, 2002 and 2001, respectively, fulfilling our minimum commitments to purchase manufacturing services from Motorola during such periods. We currently have no minimum commitments to purchase manufacturing services from Motorola.

Sales, Marketing and Distribution

As of December 31, 2003, our global sales and marketing organization consists of approximately 406 professionals operating out of approximately 45 offices and serving customers in 37 countries. We support our customers through logistics organizations and just-in-time warehouses. Global and regional distribution channels further support our customers' needs for quick response and service. We offer efficient, cost-effective internet-based applications support from our laboratories in the Czech Republic, China and the United States. Through on-line connectivity, applications developed in one region of the world are now instantaneously available to all other regions. Pursuant to our restructuring programs, we have downsized our sales force by approximately 230 employees, closed approximately 20 of our sales offices and, in some regions, converted sales personnel to sales representatives. In addition, we have centralized and relocated our order entry functions to low cost locations. Motorola agreed to provide us with worldwide shipping and freight services for a period of up to three years following our 1999 recapitalization. This resulted in better prices than we could obtain from third parties. Cost increases resulting from the termination of the shipping and freight service agreement in July 2002 were estimated to be approximately \$11 million in 2002 as compared to 2001. We have negotiated improved freight agreements and changed some logistic flows to offset some of the increase in our 2003 total freight costs.

Patents, Trademarks, Copyrights and Other Intellectual Property Rights

We market our products under our registered trademark ON Semiconductor[®] and our ON logo. We own rights to a number of patents, trademarks, copyrights, trade secrets, and other intellectual property directly related to and important to our business. In connection with our 1999 recapitalization, Motorola assigned, licensed, or sublicensed, as the case may be, to us certain intellectual property to support and continue the operation of our business. As of January 16, 2004, we had approximately 474 U.S. and foreign patents and approximately 187 patent applications pending worldwide. Our patents have expiration dates ranging from 2004 to 2022. None of our patents that expire in the near future materially affect our business. Additionally, we hold more than 230 U.S. and foreign trademarks and applications. Our policy is to protect our products and processes by asserting our intellectual property rights where appropriate and prudent and by obtaining patents, copyrights and other intellectual property rights used in connection with our business when practicable and appropriate.

Under an intellectual property agreement that we entered into with Motorola as part of our 1999 recapitalization, Motorola assigned approximately 295 U.S. patents and patent applications, approximately 292 foreign patents and patent applications, rights to over 50 trademarks (not including the Motorola name) previously used in connection with our products, rights in know-how relating to at least 39 semiconductor fabrication processes and rights in specified copyrightable materials. In addition, Motorola licensed on a non-exclusive, royalty-free basis other patent, trademark, copyright and know-how rights used in connection with our then existing products and products contemplated in our long-range plans. We have perpetual, royalty-free, worldwide rights under Motorola's patent portfolio and other intellectual property, existing as of the date of our recapitalization or created in the five years thereafter (the five-year period existing only with respect to patents), as necessary to manufacture, market, and sell our then existing and long range plan product lines. Additionally, Motorola provided us with a limited indemnity umbrella to protect us from certain infringement claims by third parties who had granted Motorola licenses as of the date of our recapitalization, which will assist us in developing our own patent position and licensing program. We believe that we have the right to use all Motorola-owned technology used in connection with the products we currently offer.

Seasonality

Historically, our revenues have been affected by the seasonal trends of the semiconductor and related industries. As a result of these trends, we typically experienced sales increases in the first two quarters of the year and relatively flat sales levels in the third and fourth quarters. However, over the past three years, various events have disrupted this pattern. Throughout 2001, revenues declined due to slowing demand in the semiconductor market and the general economic decline. In 2002 and 2003, revenues fluctuated within a narrow range and at this time, it is unclear when the semiconductor industry is going to return to its seasonal trends.

Backlog

Our trade sales are made primarily pursuant to standard purchase orders that are booked as far as 26 weeks in advance of delivery. Generally, prices and quantities are fixed at the time of booking. Backlog as of a given date consists of existing orders and forecasted demands from our Electronic Data Interface customers, in each case scheduled to be shipped over the 13-week period following such date. Backlog is influenced by several factors including market demand, pricing and customer order patterns in reaction to product lead times. Because we record revenues on a "sell-through" basis, backlog comprised of orders from distributors will not result in revenues until the distributors sell the products ordered. During 2003, our backlog at the beginning of each quarter represented between 76% and 81% of actual revenues during such quarter. As manufacturing capacity utilization in the industry increases, customers tend to order products further in advance and, as a result, backlog at the beginning of a period as a percentage of revenues during such period is likely to increase.

In the semiconductor industry, backlog quantities and shipment schedules under outstanding purchase orders are frequently revised to reflect changes in customer needs. Agreements calling for the sale of specific quantities are either contractually subject to quantity revisions or, as a matter of industry practice, are often not enforced.

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Therefore, a significant portion of our order backlog may be cancelable. For these reasons, the amount of backlog as of any particular date may not be an accurate indicator of future results.

We sell products to key customers pursuant to contracts that allow us to schedule production capacity in advance and allow the customers to manage their inventory levels consistent with just-in-time principles while shortening the cycle times required to produce ordered product. However, these contracts are typically amended to reflect changes in customer demands and periodic price renegotiations.

Competition

The semiconductor industry, particularly the market for general-purpose semiconductor products like ours, is highly competitive. Although only a few companies compete with us in all of our product lines, we face significant competition within each of our product lines from major international semiconductor companies, as well as smaller companies focused on specific market niches. Because our components are often building block semiconductors that in some cases can be integrated into more complex integrated circuits, we also face competition from manufacturers of integrated circuits, application-specific integrated circuits and fully customized integrated circuits, as well as customers who develop their own integrated circuit products. (See “Risk Factors — Competition in our industry could prevent us from maintaining our revenues and from raising prices to offset increases in costs” elsewhere in this report.)

We compete with respect to power management and standard analog products, standard components, MOS power devices and high frequency clock and data management products in the following manner:

Power Management and Standard Analog product line

The principal methods of competition in this product line are new product innovation, technical performance, quality, service and price. Our competitive strengths in this product line are our strong technology and design resources, our industry recognition in applications, such as automotive, and our market share in this segment. Our significant competitors in this market include Fairchild, Linear Technology, National Semiconductor, New Japan Radio, ST Microelectronics, and Texas Instruments. Several of these competitors are larger in scale and size, have substantially greater financial and other resources with which to pursue development, engineering, manufacturing, marketing and distribution of their products and are better able to withstand adverse economic or market conditions. A competitive challenge in this product line is our small market share with certain Japanese customers that tend to favor local suppliers for their new product designs. If we are not identified as a vendor in the product design phase, in most cases it is difficult to convince the manufacturer of the product to substitute our components during the production phase.

Standard Components product line

The principal methods of competition in this product line are price, technical performance, quality and service. Our competitive strengths in this product line are the breadth of our portfolio, our low cost manufacturing capability, our global market presence and our ability to service broad application market segments. The strong acceptance of ON's MicroIntegration™ capability (with ability to integrate both active and passive components in multi-chip or monolithic approaches) into various applications in our existing markets is an additional competitive strength in this product line. Our significant competitors in this market include Fairchild Semiconductor, Philips, Renesas, Rohm, ST Microelectronics, Texas Instruments, and Toshiba. Several of these competitors are larger in scale and size, have substantially greater financial and other resources with which to pursue development, engineering, manufacturing, marketing and distribution of their products and are better able to withstand adverse economic or market conditions. A competitive challenge in this product line is our small market share with certain Japanese customers that tend to favor local suppliers for their new product designs. If we are not identified as a vendor in the product design phase, in most cases it is difficult to convince the manufacturer of the product to substitute our components during the production phase.

MOS Power Devices product line

The principal methods of competition in this product line are new product innovation, technical performance, price, quality and service. Our competitive strengths in this product line are our strong presence in areas such as IGBT's and low voltage planar technology, our broad product offering, and our state-of-the-art trench technology. Our significant competitors in this market include Fairchild, Infineon, International Rectifier, Renesas, ST Microelectronics and Vishay. Several of these competitors are larger in scale and size, have substantially greater financial and other resources with which to pursue development, engineering, manufacturing, marketing and distribution of their products and are better able to withstand adverse economic or market conditions. A competitive challenge in this product line is our small market share with certain Japanese customers that tend to favor local suppliers for their new product designs. If we are not identified as a vendor in the product design phase, in most cases it is difficult to convince the manufacturer of the product to substitute our components during the production phase.

High Frequency Clock and Data Management product line

The principal methods of competition in this product line are new product innovation, technical performance, quality, service and price. Our competitive strengths in this product line are our use of specialized high speed materials like silicon germanium and the volume benefits which come from being one of the largest suppliers in this segment. Our significant competitors in this market include Fairchild, Maxim, Micrel, Motorola and Semtech. Although we have a significant share in this market, the total potential revenue has been reduced commensurate with the downturn in the networking, telecommunications and automated test equipment market segments, which currently drive the applications for this product.

Research and Development

Company-sponsored research and development costs in 2003, 2002 and 2001 were \$85.5 million (8.0% of revenues), \$81.5 million (7.5% of revenues) and \$94.5 million (7.7% of revenues), respectively. The primary emphasis of our new product development efforts is on power management and standard analog and high frequency clock and data management solutions, the highest margin product lines within our portfolio, with over 70% of our overall research and development investments currently targeted in these areas. Since our IPO in May 2000, we have introduced over 1,000 new products, and the portion of our revenue attributable to new products has increased over the last three years.

Government Regulation

Our manufacturing operations are subject to environmental and worker health and safety laws and regulations. These laws and regulations include those relating to emissions and discharges into the air and water; the management and disposal of hazardous substances; the release of hazardous substances into the environment at or from our facilities and at other sites; and the investigation and remediation of resulting contamination.

Our 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 our 1999 recapitalization, Motorola has retained responsibility for this contamination, and has agreed to indemnify us with respect to remediation costs and other costs or liabilities related to this matter.

Manufacturing facilities in Slovakia and those of our majority-owned subsidiary 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

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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 us and the respective subsidiaries, subject to specified limitations, for remediation costs associated with this historical contamination. Based upon the information available, we do not believe that total future remediation costs to us will be material.

Our manufacturing facility in East Greenwich, Rhode Island has adjoining property that has localized soil contamination. In connection with the purchase of the facility, we 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, we do not believe that any costs to us in connection with this matter will be material.

We believe that our operations are in material compliance with applicable environmental and health and safety laws and regulations. We do not expect the cost of compliance with existing environmental and health and safety laws and regulations, and liability for currently known environmental conditions, to have a material adverse effect on our business or prospects. It is possible, however, that future developments, including changes in laws and regulations, government policies, customer specification, personnel and physical property conditions, including currently undiscovered contamination, could lead to material costs.

Employees

As of December 31, 2003, we employed approximately 10,055 worldwide. We do not currently have any collective bargaining arrangements with our employees, except for those arrangements, such as works councils, that are obligatory for all employees or all employers in a particular industry under applicable foreign law. Of the total number of our employees as of December 31, 2003, approximately 8,857 were engaged in manufacturing and information services, approximately 406 were engaged in our sales and marketing organization and in customer service, approximately 325 were engaged in administration and approximately 467 were engaged in research and development.

Executive Officers of the Registrant

See Part III, Item 10 of this report for information concerning executive officers.

Geographical Information

For certain geographic operating information, see Note 19, "Segment Information" of the notes to our audited consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, in each case, as included elsewhere in this report. For information regarding the risks associated with our foreign operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations — Trends, Risks and Uncertainties — "Our international operations subject us to risks inherent in doing business on a international level that could adversely impact our results of operations" elsewhere in this report.

Available Information

We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports available, free of charge, in the "Investor Relations" section of our Internet website at <http://www.onsemi.com> as soon as reasonably practicable after we electronically file this material with, or furnish this material to, the Securities and Exchange Commission.

You may also read or copy any materials that we file with the SEC at their Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain additional information about the Public Reference

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Room by calling the SEC at 1-800-SEC-0330. Additionally, you will find these materials on the SEC Internet site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC.

Item 2. *Properties*

In the United States, our corporate headquarters as well as manufacturing, research and development and warehouse operations are located in approximately 1.8 million square feet of space in properties that we own in Phoenix, Arizona and East Greenwich, Rhode Island. We also lease properties around the world for use as sales offices, research and development labs, warehouses, logistic centers and trading offices. The size and/or location of these properties change from time to time based on business requirements. We operate distribution centers, which are leased or contracted through a third party, in locations throughout Asia, Europe and the Americas. We own our manufacturing facilities in the United States, Japan, Malaysia, the Philippines, Slovakia and the Czech Republic. These facilities are primarily manufacturing operations, but also include office, utility, laboratory, facilities, warehouse and unused space. Our joint venture in Leshan, China also owns manufacturing, warehouse, laboratory, office and unused space.

In November 2003, we announced our decision to discontinue our assembly and test operations at our site in Roznov, Czech Republic and move these operations to our facility in Seremban, Malaysia and to contract manufacturers. In December 2003, we announced our decision to phase out manufacturing operations at our facility in East Greenwich, R.I. We estimate this closure will be complete by the end of 2004. We plan to transfer most of the production of this facility to our lower cost manufacturing facilities outside of North America and the balance to lower cost contract manufacturers, resulting in an expected reduction of 330 jobs.

As part of our 1999 recapitalization, Motorola conveyed to us the surface rights to a portion of the land located at our Phoenix facility, excluding the subsurface rights, and conveyed buildings located at the Phoenix facility. These buildings do not include any treatment facilities relating to Motorola's environmental clean-up operations at the Phoenix facility. We executed a declaration of covenants, easements and restrictions with Motorola providing access easements for the parties and granting to us options to purchase or to lease the subsurface rights of the land. Motorola leased approximately 70,000 square feet of space at our Phoenix facility pursuant to an agreement that expired in June 2003. Motorola ceased manufacturing at our Phoenix facility during 2002 and substantially removed their equipment, material and personnel from the site as of December 31, 2002.

We believe that our facilities around the world, whether owned or leased, are well maintained. We believe that we have sufficient access to productive capacity to meet our needs for the majority of the products in our business lines for the foreseeable future.

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, first lien secured notes and second lien secured notes.

Item 3. *Legal Proceedings*

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

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

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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 us, 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 a 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

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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, among other things, negotiating, executing, and filing with the Court final settlement documents, and final approval by the Court. Formal settlement documents for submission to the Court are currently being drafted. If the proposed settlement described above is not consummated, however, 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.

See "Government Regulation" above for information on environmental matters.

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

None

PART II**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

Our common stock has traded under the symbol "ONNN" on the Nasdaq National Market since April 28, 2000, except for the period from October 25, 2002 until September 3, 2003 during which our common stock was quoted on the Nasdaq SmallCap Market. The following table sets forth the high and low closing sale prices for our common stock for the fiscal periods indicated as reported by the Nasdaq National Market or the Nasdaq SmallCap Market, as applicable.

Range of Sales Price

	<u>High</u>	<u>Low</u>
2003		
First Quarter	\$1.9500	\$1.0400
Second Quarter	\$2.7100	\$1.0300
Third Quarter	\$5.4600	\$2.6900
Fourth Quarter	\$7.0500	\$4.1900
2002		
First Quarter	\$4.2000	\$2.2500
Second Quarter	\$5.9900	\$1.6000
Third Quarter	\$2.8100	\$1.1600
Fourth Quarter	\$2.6200	\$0.9100

As of March 1, 2004, there were approximately 243 record holders of our common stock and 252,832,460 shares of common stock outstanding.

We have neither declared nor paid any cash dividends on our common stock since our initial public offering, and we do not presently intend to do so. Our future dividend policy with respect to our common stock will depend upon our earnings, capital requirements, financial condition, debt restrictions and other factors deemed relevant by our Board of Directors. Each of our senior bank facilities, senior secured first lien notes, senior secured second lien notes, senior subordinated notes and preferred stock restricts our ability to pay cash dividends to our common stockholders.

Equity Compensation Plan Table

See Part III, Item 11 of this report for information regarding our current equity compensation plans as of December 31, 2003.

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Item 6. Selected Financial Data

The following table sets forth certain of our selected financial data for the periods indicated. We derived the statement of operations and cash flow data set forth below for the years ended December 31, 2003, 2002, 2001 and 2000 and the period from August 4, 1999 through December 31, 1999, and the balance sheet data for December 31, 2003, 2002, 2001, 2000 and 1999, from our audited post-recapitalization consolidated financial statements. We derived the statement of operations data set forth below for the period from January 1, 1999 through August 3, 1999, from our audited pre-recapitalization combined financial statements. You should read this information in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements included elsewhere in this report.

	Post-Recapitalization					Pre-Recapitalization
	Year ended December 31,				August 4, 1999 Through December 31, 1999	January 1, 1999 Through August 3, 1999
	2003	2002	2001	2000		
(in millions, except per share data)						
Statement of Operations data (1):						
Revenues	\$ 1,069.1	\$ 1,093.7	\$ 1,223.2	\$ 2,083.3	\$ 800.8	\$ 986.4
Write-off of acquired in-process research and development (2)	—	—	—	26.9	—	—
Restructuring, asset impairments and other, net (3)	61.2	27.7	150.4	4.8	3.7	—
Loss on debt prepayment (4)	(7.7)	(6.5)	—	(29.2)	—	—
Cumulative effect of accounting change (5)	(21.5)	—	(116.4)	—	—	—
Revenues less direct and allocated expenses (6)	n/a	n/a	n/a	n/a	n/a	104.8
Net income (loss) (6)	(166.7)	(141.9)	(831.4)	62.3	29.8	n/a
Diluted earnings per common share (7)	\$ (0.94)	\$ (0.86)	\$ (4.88)	\$ 0.38	\$ 0.13	
December 31,						
	2003	2002	2001	2000	1999	
(in millions)						
Balance Sheet data:						
Total assets	\$ 1,161.4	\$ 1,258.4	\$ 1,399.2	\$ 2,050.2	\$ 1,637.0	
Long-term debt, less current portion	1,291.5	1,403.4	1,394.5	1,263.2	1,295.3	
Redeemable preferred stock (8)	119.7	110.1	101.6	—	219.6	
Stockholders’ equity (deficit)	(644.6)	(662.1)	(517.4)	337.7	(247.7)	

(1) In the second quarter of 2003, we adopted FASB Interpretation No. 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.” FASB Interpretation No. 46 requires that certain variable interest entities be consolidated by the primary beneficiary, as that term is defined in FASB Interpretation No. 46. We determined that our investment in Leshan-Phoenix Semiconductor Company Limited meets the definition of a variable interest entity as our economic interest in Leshan is proportionately greater than our ownership interest in Leshan and, therefore, our investment in Leshan should be consolidated under FASB Interpretation No. 46. We had previously accounted for our investment in Leshan using the equity method. While consolidation of our investment in Leshan did not impact our previously reported new income (loss) or stockholders’ equity (deficit), financial information for periods beginning on or after January 1, 2000 that appears in this form 10-K has been revised for comparative purposes as allowed by FASB Interpretation No. 46. Financial information for the periods following our August 4, 1999 recapitalization and ending prior to January 1, 2000 that appears in this document or in those incorporated by reference have not been so revised as the impact is not material to those periods.

(2) The write-off of acquired in-process research and development relates to our April 2000 acquisition of Cherry Semiconductor Corporation, and is presented net of tax.

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- (3) Restructuring, asset impairments and other, net include employee severance and other exit costs associated with our worldwide profitability enhancement programs, asset impairments, executive severance costs, a \$12.4 million gain in 2002 associated with the settlement of various contractual issues with Motorola and a \$4.6 million gain in 2003 associated with the sale of our Guadalajara property.
- (4) In 2002 and 2003, the charge represents the write-off of capitalized debt issuance costs and certain third party expenses in connection with the prepayment of a portion of our senior bank facilities. In 2000, the charge relates to repayment penalties, redemption premiums and the write-off of capitalized debt issuance costs in connection with the repayment of a portion of our senior subordinated notes from a portion of the proceeds of our initial public offering of common stock.
- (5) Effective January 1, 2001, we changed our accounting method for recognizing revenue on sales to distributors. Recognition of revenue and the related gross profit on sales to distributors is now deferred until the distributor resells the product to the end user. The cumulative effect of this accounting change for periods prior to January 1, 2001 was a charge of \$155.2 million (\$116.4 million, net of taxes). During the second quarter of 2003, we changed our method of accounting for net unrecognized actuarial gains or losses relating to our defined benefit pension obligations. Historically, we amortized our net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, we no longer defer actuarial gains or losses and will recognize such gains and losses during the fourth quarter of each year, which is the period in which our annual pension plan actuarial valuations are prepared. The impact of this change for periods prior to January 1, 2003 was a charge of \$21.5 million, both before and after income taxes.
- (6) Prior to our 1999 recapitalization, cost of sales, research and development expenses, selling and marketing expenses, general and administrative expenses and interest expense included amounts allocated to us by Motorola. In addition, Motorola did not allocate income tax expense to us. Net income (loss) for the pre-recapitalization period is not provided as it does not represent a meaningful amount for comparative purposes. The net loss for 2001 includes a charge of \$366.8 million to establish a valuation allowance for a portion of our deferred tax assets.
- (7) Diluted earnings per common share for the years ended December 31, 2003, 2002, 2001 and 2000 and the period from August 4, 1999 to December 31, 1999 are calculated by deducting dividends on our redeemable preferred stock of \$9.2 million, \$8.5 million, \$2.4 million, \$8.8 million and \$10.6 million, respectively, the accretion of the increase in redemption value of our redeemable preferred stock of \$0.5 million in 2003 and the accretion of the beneficial conversion feature on redeemable preferred stock of \$13.1 million in 2001 from net income for such periods and then dividing the resulting amounts by the weighted average number of common shares outstanding (including the incremental shares issuable upon the assumed exercise of stock options and conversion of preferred stock to the extent they are not anti-dilutive) during such periods. On or after September 7, 2009, this preferred stock is redeemable in whole or in part at the option of the holder at a redemption price equal to the greater of stated value plus all unpaid dividends accumulated or 50% of the current market price of our common stock into which the preferred stock is then convertible. We are required to accrete the value of the preferred stock to its redemption value, and any resulting non-cash charge would reduce net income applicable to common stock. The periodic accretion amount changes as our stock price changes. The accretion amount also increases due to the ability of the holder to convert the preferred stock into more shares of common stock after each quarterly dividend. Based on the average closing price of our common stock over the last 30 trading days preceding December 31, 2003 of \$6.19 the accretion, in respect to the redemption feature, for the fourth quarter of 2003 was \$0.5 million.
- (8) The redeemable preferred stock outstanding at December 31, 1999 was issued to an affiliate of Texas Pacific Group and to Motorola in connection with our 1999 recapitalization and redeemed in full with a portion of the proceeds from our initial public offering of common stock in May 2000. The redeemable preferred stock outstanding at December 31, 2003, 2002 and 2001 was issued to an affiliate of Texas Pacific Group in September 2001.

Item 7. 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 elsewhere in this Form 10-K. 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 the factors discussed in “Trends, Risks and Uncertainties” in this Form 10-K.

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

Worldwide semiconductor industry sales were \$166.4 billion in 2003, an increase of 18.3% from 2002. We participate in unit and revenue surveys and use data summarized by the World Semiconductor Trade Statistics 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 following table sets forth total worldwide semiconductor industry revenues and revenues in our total addressable market since 2000:

Year Ended December 31,	Worldwide Semiconductor Industry Sales ⁽¹⁾	Percent Change	Total Addressable Market Sales ^{(1) (2)}	Percent Change
	(in billions)		(in billions)	
2000	\$ 204.4		\$ 28.2	
2001	\$ 139.0	(32.0)%	\$ 19.8	(29.8)%
2002	\$ 140.7	1.2%	\$ 20.3	2.5%
2003	\$ 166.4	18.3%	\$ 23.2	14.4%

- (1) Based on shipment information published by WSTS, an industry research firm. WSTS collects this information based on product shipments, which is different from our revenue recognition policy as described in “Critical Accounting Policies — Revenue Recognition” contained elsewhere in this report. We believe the data provided by WSTS is reliable, but we have not independently verified it. WSTS periodically revises its information. We assume no obligation to update such information.
- (2) Our total addressable market comprises the following specific WSTS product categories: (a) discrete products (all discrete semiconductors other than sensors, RF and microwave power transistors/modules, RF and microwave diodes, RF and microwave SS transistors, power FET modules, IGBT modules and optoelectronics); (b) standard analog products (amplifiers, voltage regulators and references, comparators, ASSP consumer, ASSP computer, ASSP automotive and ASSP industrial and others); and (c) standard logic products (general purpose logic and MOS general purpose logic only). Although we categorize our products as power and data management semiconductors and standard semiconductor components, WSTS uses different product categories.

Following the unprecedented semiconductor industry revenue declines of 2001, the semiconductor industry began to show signs of stability in 2002 and grew more robust in 2003. Worldwide semiconductor industry sales grew by 1.2% in 2002 and 18.3% in 2003. Sales in our total addressable market grew by 2.5% in 2002 and 14.4% in 2003, reflecting increases in volume and slowing rates of price declines during the latter part of the 2003.

The most recently published estimates of WSTS project a compound annual growth rate in our total addressable market of approximately 15% during 2002 through 2005. These are projections and may not be indicative of actual results. Other industry data also indicate that the market for our products has begun to expand after the recent and prolonged downturn.

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Business 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.

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.

We believe we have entered into a cycle of rising volume and prices, as our manufacturing capacity utilization has increased to over 85%, our book-to-bill ratio has exceeded 1 in each quarter of 2003 and we have been able to selectively increase prices on some products where there are market shortages.

These recent trends are in sharp contrast to the last three years during which we had to consistently reduce our costs in order to generate sufficient cash flow to fund investments in new products and expand production capabilities in lower cost areas of the world.

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. As a result of the elements of a program that we started in June 2001 and completed in the fourth quarter of 2002 (the 2000 plan), we achieved approximately \$365 million of annualized cost savings, based on a comparison of our cost structure during the first quarter of 2001 to our cost structure during the third quarter of 2002. As a result of additional cost cutting commenced in the fourth quarter of 2002, which was completed during the fourth quarter of 2003 (the 2002 plan), we believe that we achieved an estimated \$114 million of cost savings in 2003, as compared to our cost structure during the third quarter of 2002, and we expect to achieve an estimated \$151 million of annual costs savings beginning in 2004 from the 2002 plan. These savings are as a result of our manufacturing rationalization plan, reductions in non-manufacturing personnel and other cost controls. Our manufacturing rationalization plan included movement of our manufacturing operations from high cost regions in North America to lower cost regions in Asia and Central Europe. As a result, approximately 79% of our cost of goods sold in 2003 related to our manufacturing operations outside of North America. More recently, we announced that we intend to phase out our manufacturing operations in East Greenwich, R.I. and our assembly and test operations in the Czech Republic by the end of 2004.

New Product Innovation

As a result of the success of our research and development initiatives, we introduced 176 new products in 2002 and 260 new products in 2003. The primary emphasis of our new product development efforts is on power management and high frequency clock and data management solutions, which we expect to be among the highest

margin product families within our portfolio. The portion of our revenue attributable to new products has increased over the last three years, even though our overall revenue has declined during this period. We define new product revenue as revenue from the sale of products that we have introduced in the three years prior to and during the period measured.

Debt Reduction and Financing Activities

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 under our senior bank facilities, which contained minimum interest coverage ratio and maximum leverage ratio covenants with which we were not in compliance as of June 29, 2001. We obtained a waiver in respect of such non-compliance and any future non-compliance through 2002 and amended our senior bank facilities to make these covenants less restrictive through 2005; however, in connection with such waiver and amendment, we added minimum cash and EBITDA covenants and agreed to pay additional supplemental interest and obtain a \$100 million equity investment from our principal stockholder.

During 2002 and the first half of 2003, we completed two debt refinancing transactions and further amended our senior bank facilities in connection therewith to extend a portion of our debt maturities, reduce the supplemental interest associated with our 2001 bank amendment and make the related financial covenants less restrictive on the whole. We issued \$300 million principal amount of second lien senior secured notes due 2008 and \$200 million principal amount of first lien senior secured notes due 2010, the net proceeds of which were used to prepay a portion of our senior bank facilities. We incurred \$22.7 million of offering expenses and increased our weighted average cost of borrowing as a result. In addition, as part of the related amendments to our senior bank facilities, we converted \$62.5 million of our \$125 million revolving facility into a new term loan facility.

During the second half of 2003, we began undertaking measures to reduce our long-term debt, reduce the related interest costs and, in some cases, extend a portion of our debt maturities to continue to provide us additional operating flexibility. In September 2003, we issued approximately 37.0 million shares of our common stock at a public offering price of \$4.50 per share, the net proceeds of which were used to prepay a portion of our senior bank facilities. In connection with this offering, we amended our senior bank facilities to, among other things, extend the average maturity of the term loans through a refinancing of \$100 million of such loans and replace our \$62.5 million revolving facility with a new \$25.0 million revolving facility.

In November 2003, we further amended our senior bank facilities to, among other things, reduce the interest rate on our outstanding term loans by 0.75%. In November 2003, we extended the maturity of our \$20.0 million loan facility with a Chinese bank for an additional three years under the same terms and conditions. In December 2003, we prepaid approximately \$48.0 million of loans under our senior bank facilities with the proceeds from a new loan facility with a Chinese bank that bears interest at LIBOR plus 1.5%, as compared to LIBOR plus 3.25% under our senior bank facilities.

In February 2004, we further reduced our long-term debt as result of our sale of approximately 34.4 million shares at a public offering price of \$6.98 per share, the net proceeds of which were used to redeem \$70 million principal amount of our first lien senior secured notes due 2010 and \$105 million principal amount of our second lien senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes plus accrued and unpaid interest to the redemption date. The remaining proceeds will be used for general corporate purposes. In connection with the offering we further amended our senior bank facilities to permit us to use the proceeds of this offering within 270 days of completion to purchase, redeem or retire a portion of our senior subordinated notes due 2009 and our first lien senior secured notes and second lien senior secured notes.

The details of each of these financing events are outlined in the following sections. Also, see Note 7 “Long-Term Debt,” Note 10 “Redeemable Preferred Stock” and Note 11 “Common Stock” of the notes to our audited consolidated financial statements included elsewhere in this report.

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Outlook

Based upon booking trends, backlog levels and estimated turns levels, we anticipate that revenues for the first quarter of 2004 will increase by 5% to 6% as compared to the fourth quarter of 2003. Backlog levels at the beginning of the first quarter of 2004 were higher than backlog levels at the beginning of the fourth quarter of 2003 and represented greater than 90% of our anticipated revenues for the first quarter of 2004. We expect that average selling prices for the first quarter of 2004 will increase as compared to the fourth quarter of 2003 and that our gross margin for the first quarter of 2004 will increase to between 29% and 30%.

Results of Operations

The following table summarizes certain information relating to our operating results that has been derived from our audited consolidated financial statements for the years ended December 31, 2003, 2002 and 2001. The amounts in the following table are in millions, except for percentage changes:

	Year ended December 31,			Dollar Change		Percent Change	
	2003	2002	2001	2002 to 2003	2001 to 2002	2002 to 2003	2001 to 2002
Revenues	\$1,069.1	\$1,093.7	\$1,223.2	\$ (24.6)	\$ (129.5)	(2.2)	(10.6)
Cost of sales	768.1	795.6	997.7	(27.5)	(202.1)	(3.5)	(20.3)
Gross profit	301.0	298.1	225.5	2.9	72.6	1.0	32.2
Operating expenses:							
Research and development	85.5	81.5	94.5	4.0	(13.0)	4.9	(13.8)
Selling and marketing	63.0	61.2	74.8	1.8	(13.6)	2.9	(18.2)
General and administrative	64.9	88.8	115.5	(23.9)	(26.7)	(26.9)	(23.1)
Amortization of intangibles	5.9	11.9	22.6	(6.0)	(10.7)	(50.4)	(47.3)
Restructuring, asset impairments and other	61.2	27.7	150.4	33.5	(122.7)	120.9	(81.6)
Total operating expenses	280.5	271.1	457.8	9.4	(186.7)	3.5	(40.8)
Operating income (loss)	20.5	27.0	(232.3)	(6.5)	259.3	(24.1)	(111.6)
Other income (expenses):							
Interest expense	(151.1)	(152.5)	(143.6)	1.4	(8.9)	(0.9)	6.2
Interest income	2.0	2.4	4.0	(0.4)	(1.6)	(16.7)	(40.0)
Gain on sale of investment in joint venture	—	—	3.1	—	(3.1)	nm	(100.0)
Loss on debt prepayment	(7.7)	(6.5)	—	(1.2)	(6.5)	18.5	nm
Other income (expenses), net	(156.8)	(156.6)	(136.5)	(0.2)	(20.1)	0.1	14.7
Income (loss) before income taxes, minority interests, and cumulative effect of accounting change	(136.3)	(129.6)	(368.8)	(6.7)	239.2	5.2	(64.9)
Income tax benefit (provision)	(7.7)	(9.5)	(345.8)	1.8	336.3	(18.9)	(97.3)
Minority interests	(1.2)	(2.8)	(0.4)	1.6	(2.4)	(57.1)	600.0
Net loss before cumulative effect of accounting change	(145.2)	(141.9)	(715.0)	(3.3)	573.1	2.3	(80.2)
Cumulative effect of accounting change net of income tax	(21.5)	—	(116.4)	(21.5)	116.4	nm	(100.0)
Net income (loss)	\$ (166.7)	\$ (141.9)	\$ (831.4)	\$ (24.8)	\$ 689.5	17.5	(82.9)

nm Not meaningful

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Revenues

Revenues were \$1,069.1 million, \$1,093.7 million and \$1,223.2 million in 2003, 2002 and 2001, respectively. The decline from 2001 to 2002 and from 2002 to 2003 were primarily due to declines in average selling prices of approximately 10% and 14% respectively, in each case partially offset by volume and mix changes. As previously described, during 2001 and continuing through the first part of 2003 the decline in average selling prices was due to overcapacity and lower demand in the semiconductor industry. The revenues by product line are as follows (dollars in millions):

	<u>Year Ended December 31, 2003</u>	<u>As a % of Revenue ⁽¹⁾</u>	<u>Year Ended December 31, 2002</u>	<u>As a % of Revenue ⁽¹⁾</u>	<u>Year Ended December 31, 2001</u>	<u>As a % of Revenue ⁽¹⁾</u>
Power Management and Standard Analog	\$ 333.4	31.2%	\$ 362.7	33.2%	\$ 365.4	29.9%
MOS Power Devices	152.5	14.3%	138.7	12.7%	146.7	12.0%
High Frequency Clock and Data Management	80.5	7.5%	72.0	6.6%	118.5	9.7%
Standard Components	502.7	47.0%	520.3	47.6%	592.6	48.4%
Revenues	\$ 1,069.1		\$ 1,093.7		\$ 1,223.2	

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

Although revenues from our power management and standard analog product line declined from 2001 to 2002 and from 2002 to 2003, revenues in this product line as a percentage of total revenues increased from 2001 to 2002 as a result of our strategic focus of research and development and marketing efforts on the power management market. In 2003, weakness in the automotive sector has contributed to the absolute dollar and percentage declines in this product line.

Revenues from MOS power devices declined from 2001 to 2002 but increased in 2003 to exceed 2001 levels. As a percentage of revenues, this product line grew in each of 2002 and 2003, as compared to the previous year, primarily as a result of revenues from successful new product designs and strength in the computing sector.

Revenues from high frequency clock and data management products declined substantially between 2001 and 2002 due to weakness in the networking sector driven by an excessive supply of routing and networking equipment. In 2003, this sector started to grow again primarily in the automated test equipment market, causing an increase in revenues both in absolute dollars and as a percentage of revenues.

Revenue from standard components declined steadily from 2001 to 2002 and from 2002 to 2003. 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. In addition, we took steps in 2002 to exit non-profitable portions of this business, accounting for a portion of the revenue decline between 2002 and 2003. The revenue declines from 2001 to 2002 and from 2002 to 2003 are also partially attributable to our focus on other product lines during these periods.

Revenues by geographic area as a percentage of revenues were as follows:

	<u>Year Ended December 31, 2003</u>	<u>Year Ended December 31, 2002</u>	<u>Year Ended December 31, 2001</u>
Americas	30.3%	36.7%	39.7%
Asia/Pacific	52.0%	44.9%	38.7%
Europe	17.7%	18.4%	21.6%
Total	100.0%	100.0%	100.0%

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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.

Gross Profit

Our gross profit was \$301.0 million, \$298.1 million and \$225.5 million in 2003, 2002 and 2001, respectively. As a percentage of revenues, our gross margin was 28.2%, 27.3% and 18.4% in 2003, 2002 and 2001, respectively. Although declines in average selling prices had a detrimental impact on our gross margin during 2002 and 2003 and reduced the need for inventory reserves in 2002 and 2003, we were able to offset these effects through cost savings from our restructuring programs and the reduced need for inventory reserves in 2002 and 2003.

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. As a result of the elements of a program that we started in June 2001 and completed in the fourth quarter of 2002 (the 2000 plan), we achieved approximately \$365 million of annualized cost savings of which \$255 million related to cost of sales, based on a comparison of our cost structure during the first quarter of 2001 to our cost structure during the third quarter of 2002. As a result of additional cost cutting commenced in the fourth quarter of 2002, which was completed during the fourth quarter of 2003 (the 2002 plan), we believe that we achieved an estimated \$114 million of cost savings in 2003, as compared to our cost structure during the third quarter of 2002, and we expect to achieve an estimated \$151 million of annual costs savings beginning in 2004 from the 2002 plan. These savings are as a result of our manufacturing rationalization plan, reductions in non-manufacturing personnel and other cost controls. Our manufacturing rationalization plan included movement of our manufacturing operations from high cost regions in North America to lower cost regions in Asia and Central Europe. As a result, approximately 79% of our cost of goods sold in 2003 related to our manufacturing operations outside of North America. More recently, we announced that we intend to phase out our manufacturing operations in East Greenwich, R.I. and our assembly and test operations in the Czech Republic by the end of 2004. As a result of these actions, we expect to achieve modest savings in 2004, as operations transition to other manufacturing facilities. During 2005, we expect cost savings related to these closures to be between \$20 million and \$25 million, as compared to annualized costs in the third quarter of 2003.

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

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

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

	<u>Reduced Employee Costs</u>	<u>Other Cost Savings</u>	<u>Total</u>
Cost of sales	\$ 3	\$ 133	\$136
General and administrative	3	12	15
	<u>\$ 6</u>	<u>\$ 145</u>	<u>\$151</u>

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The actions taken to achieve the cost savings described above were centered around the following key initiatives, which we expect to continue to be a focus in 2004:

- consolidation of manufacturing sites to improve economies of scale;
- transfer of production to lower cost regions;
- increase 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;
- reduce the number of new product platforms and process flows; and,
- focus production on profitable product lines.

These plans have included, among other actions, phasing out manufacturing operations at our Guadalajara, Mexico facility and transferring some of the manufacturing activities performed at our Aizu, Japan and Seremban, Malaysia facilities to some of our other facilities or to third party contractors. More recently, we announced that we intend to phase out our manufacturing operations in East Greenwich, R.I. and our assembly and test operations in the Czech Republic by the end of 2004. In many cases, the volume from closed operations has been or is being shifted to our existing facilities in order to improve capacity utilization and take advantage of economies of scale. Facilities closures and production shifts have resulted in some reductions in our manufacturing capacity, but we do not expect these reductions to affect our ability to meet our foreseeable production needs.

Operating Expenses

Research and development expenses were \$85.5 million, \$81.5 million and \$94.5 million, representing 8.0%, 7.5% and 7.7% of revenues in 2003, 2002 and 2001, respectively. The primary emphasis of our new product development efforts has been, and continues to be, in the expected high growth market applications of power management and high frequency clock and data management solutions, with over 70% of our overall research and development investments focused in these areas.

Selling and marketing expenses were \$63.0 million, \$61.2 million and \$74.8 million, representing 5.9%, 5.6% and 6.1% of revenues in 2003, 2002 and 2001, respectively. Restructuring efforts in selling and marketing, including the downsizing of our sales force, closing of sales offices as well as our regional sales headquarters and centralizing and relocating our order entry functions to lower cost regions, were largely enacted by the middle of 2001. Internal sales and marketing personnel and field application engineers as well as external sales representatives promote our products. We plan to make investments in our sales and marketing systems to identify new customers as well as to expand our penetration of existing customers in selected product areas.

General and administrative expenses were \$64.9 million, \$88.8 million and \$115.5 million, representing 6.1%, 8.1% and 9.4% of revenues in 2003, 2002 and 2001, respectively. Personnel reductions of approximately 30% and the relocation of functions to lower cost regions accounted for the majority of the decrease between 2001 and 2002. Savings from these efforts, as well as continued personnel reductions and functional relocations, accounted for the further decrease between 2002 and 2003. Based on our revenue estimates for 2004 and the fact that most of our cost savings in this area have been realized, we expect that any further decreases in general and administrative expenses would be modest and would be primarily attributable to our transition to new information technology platforms.

Amortization of goodwill and other intangibles was \$5.9 million, \$11.9 million, and \$22.6 million in 2003, 2002 and 2001, respectively. As a result of the adoption of SFAS No. 142 effective January 1, 2002, we eliminated the amortization of goodwill (see Note 3 "Significant Accounting Policies" of the notes to our audited consolidated financial statements included elsewhere in this report. As discussed in further detail below, amortization of our developed technology intangible asset ceased following the second quarter of 2003 when we wrote-off the remaining balance acquired in connection with our acquisition of Cherry Semiconductor in April 2000.

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Other Operating Expenses — Restructuring, Asset Impairments and Other

Restructuring, asset impairments and other charges were \$61.2 million, \$27.7 million and \$150.4 million in 2003, 2002 and 2001, respectively. Our individual quarterly restructuring charges are summarized below; however, for more information see Note 5 “Restructuring, Asset Impairments and Other, net” of the notes to our audited consolidated financial statements included elsewhere in this report.

- \$29.9 million charge recorded in the fourth quarter of 2003, consisting of:
 - \$20.2 million of non-cash asset impairments, including \$15.4 million associated with the East Greenwich, Rhode Island facility and \$4.8 million associated the closure of the back-end manufacturing lines in Roznov, Czech Republic;
 - \$5.2 million to cover employee separation costs related to the phase-out of manufacturing operations in the Company’s East Greenwich, Rhode Island facility, the shutdown of the Company’s back-end manufacturing lines in Roznov, Czech Republic, and further reductions in general and administrative staffing levels in the United States and Western Europe;
 - \$0.4 million of lease and contract termination exit costs incurred in connection with the consolidation of sales, distribution and administrative facilities in North America; and
 - \$4.3 million of other charges consisting of the write-off of a \$2.3 million long-term note receivable and a \$2.0 million write-down of a cost basis investment; partially offset by a
 - \$0.2 million reversal of amounts previously recorded in connection with the Company’s June 2001 and December 2002 restructuring programs.
- \$3.3 million gain recorded in the third quarter 2003, consisting of:
 - \$4.6 million gain recorded in connection with the sale of the Guadalajara, Mexico facility; and
 - \$0.1 million net reversal consisting of minor adjustments to previously recorded restructuring charges; partially offset by
 - \$1.4 million charge for employee separation costs, reflecting further reductions in manufacturing; and general and administrative personnel in France, Germany, the Czech Republic, Hong Kong and the United States
- \$34.6 million charge recorded in the second quarter of 2003, consisting of:
 - \$21.3 million of non-cash impairment charges, including \$20.8 million relating to the write-off of the developed technology intangible asset associated with the April 2000 acquisition of Cherry Semiconductor Corporation and the \$0.5 million write-off of a cost basis investment;
 - \$10.5 million of non-cash asset impairments associated with an assembly and test production line in Malaysia and property and equipment in the United States;
 - \$1.4 million of lease and contract termination exit costs associated with the exit of certain sales and administrative offices and the termination of other purchase and supply agreements;
 - \$1.0 million additional charge associated with a supply contract that was terminated as part of the June 2002 restructuring program; and
 - \$0.4 million of charges to cover employee separation costs associated with general and administrative employees primarily in the United States.
- \$17.5 million charge recorded in the fourth quarter of 2002, consisting of:
 - \$10.1 million for employee separation costs associated with manufacturing and non-manufacturing personnel mainly in the United States;
 - \$4.9 million for the costs associated with the separation of two executive officers;

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- \$1.0 million of non-cash asset impairments related to the closure of a production line and an abandoned capital equipment project in the Czech Republic; and
- \$1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets; partially offset by
- \$0.3 million of net reversals consisting of adjustments to previously recorded restructuring charges;
- \$3.1 million charge recorded in the second quarter of 2002, consisting of:
 - \$8.4 million of non-cash asset impairments related to abandoned manufacturing equipment and unfinished projects;
 - \$3.9 million of cash and non-cash stock compensation charges associated with further reductions in general and administrative staffing levels, primarily in the United States;
 - \$2.8 million in costs related to termination of certain purchase and supply agreements; and
 - \$1.6 million of additional exit costs associated with the shutdown of our Guadalajara, Mexico facility; partially offset by
 - \$12.4 million gain related to a settlement with Motorola; and
 - \$1.2 million reversal of previously recorded restructuring charges;
- \$7.1 million charge recorded in the first quarter of 2002, consisting of:
 - \$7.2 million of cash and non-cash stock compensation charges associated with the consolidation of manufacturing, selling and administrative functions in the U.S. and Europe; partially offset by
 - \$0.1 million reversal of previously recorded restructuring charges.
- \$16.6 million charge recorded in the fourth quarter of 2001, consisting of:
 - \$11.1 million of non-cash asset impairments related to abandoned equipment located in the United States; and
 - \$5.5 million of cash and non-cash stock compensation charges associated with further reductions in selling, general and administrative staffing levels in the United States, United Kingdom, Germany, France and Singapore.
- \$95.8 million charge recorded in the second quarter of 2001, consisting of:
 - \$42.2 million of non-cash asset impairments relating to the aforementioned operational changes described below; and
 - \$43.6 million of cash and non-cash stock compensation charges associated with the phasing out of manufacturing operations at our Guadalajara, Mexico facility, transferring certain manufacturing activities from Aizu, Japan and Seremban, Malaysia to other ON-owned facilities or third-party manufacturers and the transfer of the Asian distribution center from Hong Kong to Singapore;
 - \$6.2 million in costs related to the termination of equipment purchase and other contractual agreements; and
 - \$3.8 million of charges for facility clean up and equipment disposal fees.
- \$38.0 million charge recorded in the first quarter of 2001, consisting of:
 - \$31.3 million of cash and non-cash stock compensation charges associated with reductions in manufacturing, selling, general and administrative staffing levels in the United States, Mexico, the Philippines, and Malaysia;
 - \$3.8 million of cash and non-cash charges associated with the separation of an executive officer; and
 - \$2.9 million of non-cash asset impairments related to the aforementioned locations.

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Interest Expense

Interest expense was \$151.1 million, \$152.5 million and \$143.6 million in 2003, 2002 and 2001, respectively. The increase between 2001 and 2002 was attributable to the increased supplemental interest charges resulting from our August 2001 amendments to our senior bank facilities, and a full year of interest on the draw on our revolving credit facility that occurred in June 2001. This supplemental interest ceased to accrue at the end of March 2003; however, the resulting interest savings was offset by our refinancing of portions of our senior bank facilities with higher interest rate bearing notes. See “Liquidity and Capital Resources — Financing” for a description of our refinancing activities. Our weighted-average interest rate on long-term debt (including current maturities) was 10.8%, 10.5% and 10.3% per annum in 2003, 2002 and 2001, respectively.

Loss on Debt Prepayment

Loss on debt prepayment totaled \$7.7 million and \$6.5 million in 2003 and 2002, respectively, representing the write-off of debt issuance costs and certain third-party costs incurred with respect to debt refinancings that occurred during those periods. See “Liquidity and Capital Resources — Financing” for a description of our refinancing activities. In the first quarter of 2004, we expect to incur an additional \$33.0 million loss on debt prepayment associated with the repayment of a portion of our first lien senior secured notes due 2010 and second lien senior secured notes due 2008 in connection with our February 2004 equity offering.

Provision for Income Taxes

Provision for income taxes was \$7.7 million, \$9.5 million and \$345.8 million in 2003, 2002 and 2001, respectively. The 2003 and 2002 provisions related to income and withholding taxes of certain of our foreign operations. The 2001 amount was greatly influenced by our decision to reserve the deferred tax benefits relating to our domestic net operating losses to the amount that could be recovered via carry-back. This decision resulted in an increase of \$366.8 million in our valuation allowance that was partially offset by deferred tax benefits recognized for certain operating losses incurred outside the United States.

[Table of Contents](#)**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 senior bank facilities, other long-term debt, operating leases, purchase obligations, pension obligations and our redeemable preferred stock. The following table summarizes our contractual obligations at December 31, 2003 and the effect such obligations are expected to have on our liquidity and cash flow in the future:

Commercial commitments	Amount of Commitment by Expiration Period						
	Total	2004	2005	2006	2007	2008	Thereafter
Standby letter of credit	\$ 16.0	\$ 4.7	\$ 8.6	\$ 0.7	\$ —	\$ —	\$ 2.0

Contractual obligations	Payments Due by Period						
	Total	2004	2005	2006	2007	2008	Thereafter
Long-term debt	\$ 1,302.9	\$ 11.4	\$ 11.0	\$ 152.1	\$ 226.2	\$ 297.5	\$ 604.7
Operating leases	16.4	8.4	5.3	2.1	0.4	0.1	0.1
Other long-term obligations — pension plans	40.1	12.4	21.7	1.7	1.5	1.3	1.5
Redeemable preferred stock	131.7	—	—	—	—	—	131.7
Purchase obligations:							
Capital purchase obligations	9.6	9.6	—	—	—	—	—
Foundry and inventory purchase obligations	31.3	31.3	—	—	—	—	—
Mainframe support	17.7	8.6	7.4	1.7	—	—	—
Information technology and communication services	17.9	15.5	1.2	1.1	—	—	0.1
Other	4.3	3.0	1.0	0.3	—	—	—
Total contractual obligations	\$ 1,571.9	\$ 100.2	\$ 47.6	\$ 159.0	\$ 228.1	\$ 298.9	\$ 738.1

Our long-term debt includes \$320.1 million under senior bank facilities, \$191.6 million of senior secured notes (net of unamortized discount) due 2010, \$292.6 million of senior secured notes (net of unamortized discount) due 2008, \$260.0 million of senior subordinated notes due 2009, \$139.9 million under the junior subordinated note, \$24.3 million under a note payable to a Japanese bank, \$20.0 million under a loan facility with a Chinese bank, \$48.0 million under a loan facility with another Chinese bank and \$6.4 million of capital lease obligations. See Note 7 “Long-Term Debt” of the notes to our audited consolidated financial statements included elsewhere in this report.

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 commitments consist of estimated payments relating to our U.S. and foreign pension plans. (See Note 13 “Employee Benefit Plans” of the notes to our audited consolidated financial statements included elsewhere in this report.) Under our current assumptions, we expect pension expense to be approximately \$5 million over the remaining life of the U.S. plan with a related cash funding requirement of

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approximately \$30 million. Upon the termination of the U.S. pension plan, we are under an obligation to ensure that the plan has assets sufficient to pay accrued benefits. The remaining obligation in the table above also includes approximately \$10 million of estimated funding requirements for our foreign pension plans.

Our Series A Cumulative Convertible Redeemable Preferred Stock is redeemable at the holder's option anytime after September 7, 2009. The preferred stock has a cumulative dividend payable quarterly in cash, at the rate of 8.0% per annum (or, if greater during the relevant quarterly period, in an amount equal to the value of the dividends that would be paid on the common stock then issuable upon conversion of the preferred stock), compounded to the extent not paid, and subject to restrictions under the Company's senior bank facilities, senior subordinated notes and other documents relating to the Company's indebtedness. The amount shown in the table above assumes no conversion of the preferred stock or redemption until the earliest redemption date of September 7, 2009. We are required to accrete the value of the preferred stock to its redemption value, and any resulting non-cash charge would reduce net income applicable to common stock for purposes of calculating earnings per share. As a result, net income applicable to common stock may be reduced by any such non-cash charges resulting from changes in the market price of our common stock. For further information see Note 10 "Redeemable Preferred Stock" of the notes to our audited consolidated financial statements included elsewhere in this report.

Our balance of cash and cash equivalents was \$186.6 million at December 31, 2003. We believe we have sufficient cash to meet our liquidity needs over the next twelve months. Our senior bank facilities include a \$25.0 million revolving facility. Letters of credit totaling \$12.6 million were outstanding under the revolving facility at December 31, 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 is less than \$2.5 million.

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

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

We provide for indemnification of directors, officers and other persons in accordance with limited liability 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 provides indemnities that protect the counterparties to these contracts in the event they suffer damages as a result of a breach of such representations and warranties or in certain other circumstances relating to the sale of securities or their engagement by us.

While our future obligations under certain agreements may contain limitations on liability for indemnification, other agreements do not contain such limitations and under such agreements it is not possible to

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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.

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 be beyond our control.

If we fail to generate sufficient cash from operations, we may need to raise additional equity or borrow additional funds to achieve our longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to us. We believe that cash flow from operating activities coupled with existing cash balances will be adequate to fund our operating and capital needs as well as enable us to maintain compliance with our various debt agreements through December 31, 2004. 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. While EBITDA is not intended to represent cash flow

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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, it is included herein to provide additional information with respect to 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 years ended December 31, 2003, 2002 and 2001, with a reconciliation to cash flows from operations, the most directly comparable financial measure under generally accepted accounting principles:

	Year Ended		
	December 31, 2003 ⁽²⁾	December 31, 2002 ⁽¹⁾	December 31, 2001 ^{(1) (3)}
Net loss	\$ (166.7)	\$ (141.9)	\$ (831.4)
Increase (decrease):			
Depreciation and amortization	127.8	148.0	177.1
Interest expense	151.1	152.5	143.6
Interest income	(2.0)	(2.4)	(4.0)
Income tax provision	7.7	9.5	345.8
EBITDA	117.9	165.7	(168.9)
Increase (decrease):			
Interest expense	(151.1)	(152.5)	(143.6)
Interest income	2.0	2.4	4.0
Income tax provision	(7.7)	(9.5)	(345.8)
Loss on debt prepayment	7.7	6.5	—
Amortization of debt issuance costs and debt discount	8.7	8.1	6.0
Provision for excess inventories	13.0	16.0	50.9
Cumulative effect of accounting change	21.5	—	155.2
Non-cash impairment write-down of property, plant and equipment	30.7	12.4	56.2
Non-cash impairment of other long-lived assets	25.1	—	—
Non-cash interest on junior subordinated note payable to Motorola	13.0	11.7	10.7
Deferred income taxes	0.3	7.1	317.1
Stock compensation expense	0.1	4.5	5.0
Other	0.6	3.0	(1.9)
Changes in operating assets and liabilities	(36.1)	(29.0)	(61.3)
Net cash provided by (used in) operating activities	\$ 45.7	\$ 46.4	\$ (116.4)

⁽¹⁾ Amounts have been revised from those previously reported to reflect the consolidation of our majority-owned investment in Leshan-Phoenix Semiconductor based on recent guidance from the Financial Accounting Standards Board.

⁽²⁾ Includes the cumulative effect of the accounting change of \$21.5 million relating to actuarial gains and losses associated with our defined benefit pension obligations effective January 1, 2003.

⁽³⁾ Effective January 1, 2001, our method for recognizing revenue on sales to distributors was changed to defer recognition until the distributor resells the product. The cumulative effect of the accounting changes for periods prior to January 1, 2001 was a charge of \$155.2 million.

As a result of the industry downturn in 2001, EBITDA for 2001 was negative \$168.9 million. EBITDA for 2002 improved to \$165.7 million, primarily as a result of cost savings resulting from our restructuring initiatives and reduced restructuring, asset impairment and other charges of \$122.7 million in 2002 compared to 2001. EBITDA for 2003 declined to \$117.9 million, primarily as a result of the restructuring, asset impairment and other, net charges in 2003 that were \$33.5 million higher than those in 2002 and a cumulative effect of accounting change of \$21.5 million in 2003.

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As discussed in Note 7 “Long-Term Debt” to our audited consolidated financial statements included elsewhere in this report, our debt covenants require us to maintain minimum adjusted EBITDA levels, as defined by our credit agreement. 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.

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 \$212.5 million at December 31, 2003, and has fluctuated within 10% percent of this balance at quarter-end for each of the last eight quarters.

The components of our working capital at December 31, 2003 and 2002 are set forth below, followed by explanations for changes between 2002 and 2003 that are greater than \$5 million:

	December 31,		Change
	2003	2002	
Current Assets			
Cash and cash equivalents	\$ 186.6	\$ 190.4	\$ (3.8)
Receivables, net	136.1	115.4	20.7
Inventories, net	171.6	163.5	8.1
Other current assets	25.7	39.4	(13.7)
Deferred income taxes	2.7	6.4	(3.7)
Total current assets	522.7	515.1	7.6
Current Liabilities			
Accounts payable	115.7	74.1	41.6
Accrued expenses	89.9	100.6	(10.7)
Income taxes payable	1.7	1.9	(0.2)
Accrued interest	25.3	43.6	(18.3)
Deferred income on sales to distributors	66.2	70.8	(4.6)
Current portion of long-term debt	11.4	19.8	(8.4)
Total current liabilities	310.2	310.8	(0.6)
Net working capital	\$212.5	\$204.3	\$ 8.2

The increase in accounts receivable is primarily attributable to an increase in sales during the last two months of 2003 as compared to the last two months of 2002. Revenue growth could cause further growth in our receivable portfolio, unless such growth can be offset by reduced credit terms or improved collection rates.

The increase in inventory is attributable to an increase in production at the end of 2003 necessitated by increased backlog. Improved demand could cause a further increase in inventory if we expand production in response.

The decrease in other current assets in 2003 is primarily due to the accelerated settlement of certain value added tax (VAT) amounts in Europe and other claims as well as a reduction in prepaid items due to favorable vendor contract negotiations.

The increase in accounts payable in 2003 relates to our efforts to extend payment terms with our significant suppliers, as well as an increase in production at the end of 2003. Continued growth in the semiconductor market could cause a reversal in this trend of extended payment terms as we compete with other semiconductor manufacturers for access to production materials.

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The decrease in accrued expenses is attributable to a decrease in restructuring related reserves as we continue to make severance and contract termination payments, and the accelerated settlement of certain VAT payables in Europe described above.

The decrease in accrued interest is attributable to the payment of supplemental interest of \$26.9 million in the first quarter of 2003 (of which a majority was outstanding at December 31, 2002), partially offset by accruals associated with our first lien senior secured notes (interest payable semiannually in March and September), and prepayment of loans under of our senior bank facilities with the proceeds thereof. The effect of this refinancing activity is further described in the “Financing Activities” below.

The decrease in current portion of long-term debt relates to the effects of our 2003 refinancing activities as described in “Financing Activities” below.

Long-Term Assets and Liabilities

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

Our manufacturing rationalization plans have included efforts to efficiently utilize our existing manufacturing assets and supply arrangements more efficiently. Accordingly, we have reduced our capital expenditures during 2002 and 2003. 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 \$59.8 million, \$40.5 million and \$149.0 million in 2003, 2002 and 2001, respectively. During 2003, there was an excess supply of used semiconductor production equipment in the marketplace, and we were able to purchase additional equipment at discounted prices. We will continue to look for opportunities to make similar strategic purchases in the future as we plan to invest approximately \$80 million in 2004 for additional capacity. 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 primarily of liabilities under our foreign and domestic defined benefit pension plans. Our annual funding of these obligations is equal to the minimum legal required amount in each jurisdiction in which the plans operate. This annual amount is dependent upon many actuarial assumptions — see Note 13 “Employee Benefit Plans” to our audited consolidated financial statements included elsewhere in this report.

Key Financing Events

Overview

Set forth below is a summary of the key financing events affecting our capital structure during the last three years.

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 under our senior bank facilities, which contained minimum interest coverage ratio and maximum leverage ratio covenants with which we were not in compliance as of June 29, 2001. We obtained a waiver in respect of such non-compliance and any future non-compliance through 2002 and amended our senior bank facilities to make these covenants less restrictive through 2005; however, in connection with such waiver and amendment, we added minimum cash and EBITDA covenants and agreed to pay additional supplemental interest and obtain a \$100 million equity investment from our principal stockholder.

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During 2002 and the first half of 2003, we completed two debt refinancing transactions and further amended our senior bank facilities in connection therewith to extend a portion of our debt maturities, reduce the supplemental interest associated with our 2001 bank amendment and make the related financial covenants less restrictive on the whole. We issued \$300 million principal amount of second lien senior secured notes due 2008 and \$200 million principal amount of first lien senior secured notes due 2010, the net proceeds of which were used to prepay a portion of our senior bank facilities. We incurred \$22.7 million of offering expenses and increased our weighted average cost of borrowing as a result. In addition, as part of the related amendments to our senior bank facilities, we converted \$62.5 million of our \$125 million revolving facility into a new term loan facility.

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. In September 2003, we issued approximately 37.0 million shares of our common stock at a public offering price of \$4.50 per share, the net proceeds of which were used to prepay a portion of our senior bank facilities. In connection with this offering, we amended our senior bank facilities to, among other things, extend the average maturity of the term loans through a refinancing of \$100 million of such loans and replace our \$62.5 million revolving facility with a new \$25.0 million revolving facility.

In November 2003, we further amended our senior bank facilities to, among other things, reduce the interest rate on our outstanding term loans by 0.75%. In November 2003, we extended the maturity of our \$20.0 million loan facility with a Chinese bank for an additional three years under the same terms and conditions. In December 2003, we prepaid approximately \$48.0 million of loans under our senior bank facilities with the proceeds from a new loan facility with a Chinese bank that bears interest at LIBOR plus 1.5%, as compared to LIBOR plus 3.25% under our senior bank facilities.

In the first quarter of 2004, we expect to further reduce our long-term debt as a result of the sale of approximately 34.4 million shares of our common stock at a public offering price of \$6.98 per share. The net proceeds are expected to be used to redeem \$70 million principal amount of our first lien senior secured notes due 2010 and \$105 million principal amount of our second lien senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes plus accrued and unpaid interest to the redemption date. The remaining proceeds will be used for general corporate purposes. In connection with the offering we further amended our senior bank facilities to permit us to use the proceeds of this offering within 270 days of completion to purchase, redeem or retire a portion of our senior subordinated notes due 2009 and our first lien senior secured notes and second lien senior secured notes.

The details of each of these financing events are outlined in the following sections. Also, see Note 7 “Long-Term Debt,” Note 10 “Redeemable Preferred Stock” and Note 11 “Common Stock” of the notes to our audited consolidated financial statements included elsewhere in this report.

September 2001 Waiver under Senior Credit Facilities and Issuance of Convertible Preferred Stock to Texas Pacific Group

At June 29, 2001, we were not in compliance with minimum interest expense coverage ratio and maximum leverage ratio covenants under our senior bank facilities. On August 13, 2001, we received a waiver in respect of this noncompliance at June 29, 2001 and in respect of any future noncompliance with these covenants through December 31, 2002. In connection with this waiver, we amended our senior bank facilities to, among other things, reduce the minimum interest expense coverage requirement and increase the maximum leverage ratio requirement through December 31, 2005, add minimum cash and EBITDA requirements through December 31, 2002, increase the required interest rate spreads applicable to outstanding borrowings (referred to below as “supplemental interest”) and change certain mandatory prepayment requirements.

As a condition to the waiver and amendment, we were required to obtain \$100.0 million through an equity investment from an affiliate of Texas Pacific Group, our principal stockholder. We satisfied this requirement on

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September 7, 2001, when we issued 10,000 shares of Series A Cumulative Convertible Redeemable Preferred Stock to an affiliate of Texas Pacific Group in exchange for \$100 million (\$99.2 million, net of issuance costs). In this transaction, we issued 10,000 shares of mandatorily redeemable cumulative convertible preferred stock.

May 2002 Issuance of Second Lien Senior Secured Notes and Amendment to Senior Bank Facilities

On May 6, 2002 we issued \$300.0 million principal amount of second lien senior secured notes due 2008. The second lien senior secured notes were issued at a price of 96.902% of par and will mature on May 15, 2008. The second lien senior secured notes initially accrued interest at a rate of 12% per annum. Commencing February 6, 2003, the second lien senior secured notes began accruing interest at a rate of 13% per annum. This increased rate will remain in effect until maturity. Interest on the second lien senior secured notes is payable semi-annually in cash. The obligations under the second lien senior secured notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor Corporation (other than Semiconductor Components Industries, LLC, which is a co-issuer). The second lien senior secured notes and the guarantees thereof are secured on a second-priority basis by the assets that secure our senior bank facilities and they rank equal in right of payment with all of our and the guarantors' existing and future senior indebtedness and senior to our and the guarantors' existing and future senior subordinated and subordinated indebtedness and effectively junior to all of the liabilities of our subsidiaries that have not guaranteed such second lien senior secured notes. In connection with the offering of second lien senior secured notes, we amended our senior bank facilities to, among other things, permit the issuance of the second lien senior secured notes, make certain of the financial ratio maintenance requirements thereunder less restrictive and impose minimum EBITDA and cash requirements. (See Note 7 "Long-Term Debt" of the notes to our audited consolidated financial statements included elsewhere in this report.) We used \$278.6 million of net cash proceeds from the sale of the second lien senior secured notes to prepay a portion of our senior bank facilities.

Because the remaining principal amount of loans outstanding under our senior bank facilities was reduced below \$750.0 million as a result of this refinancing, the supplemental interest charges thereon (described in Note 7 "Long-Term Debt" of the notes to our audited consolidated financial statements elsewhere in this report) were reduced from 3.0% to 1.0%. In connection with this refinancing, we wrote off \$6.5 million of debt issuance costs.

March 2003 Issuance of First Lien Senior Secured Notes and Amendment to Senior Bank Facilities

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

In connection with the offering of the first lien senior secured notes, we further amended our senior bank facilities to, among other things:

- permit the issuance of the first lien senior secured notes;
- remove the requirement that we maintain certain minimum interest expense coverage ratios and do not exceed certain maximum leverage ratios;
- reduce to \$140.0 million our minimum EBITDA requirement for any four consecutive fiscal quarters;
- reduce our permitted capital expenditures to \$100.0 million per year (subject to certain increases for improved financial performance and carryovers from prior periods);

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- permit the redemption of up to 35% of the senior secured first lien notes out of the net proceeds of equity offerings; and
- convert \$62.5 million of the outstanding loans under our revolving credit facility into a new tranche of term loans.

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

September 2003 Public Offering of Common Stock and Amendment to Senior Bank Facilities

On September 23, 2003, we issued approximately 37.0 million shares of our common stock at a public offering price of \$4.50 per share. The net proceeds of the offering were \$156.8 million (after deducting the underwriters' discount of \$8.2 million and offering expenses of \$1.4 million, including \$0.4 million that were unpaid as of December 31, 2003). We used the net proceeds to prepay \$152.7 million of our senior bank facilities and to fund \$3.8 million of costs associated with our amendment to our senior bank facilities, as described below. In connection with this prepayment, we wrote off \$2.5 million of debt issuance costs.

In connection with the offering, we amended our senior bank facilities to, among other things:

- provide us with additional tranche D term loans under our senior bank facilities aggregating \$100.0 million, the entire amount of which was borrowed simultaneously with the completion of offering;
- permit us to apply the net proceeds from equity offerings by us or any of our subsidiaries (including the equity offering described above) and borrowings under the additional tranche D term loans to prepay scheduled principal installments of all term loan borrowings outstanding under our senior bank facilities in chronological order;
- reduce from 75% to 50% the percentage of net proceeds from future equity offerings by us or any of our subsidiaries that are required to be applied to prepay term loan borrowings outstanding under our senior bank facilities; and
- provide us with a new \$25.0 million revolving facility that will mature on August 4, 2006, that provides for the issuance of letters of credit in currencies other than U.S. dollars that are to be specified and that, in all other respects, has terms substantially similar to those of our existing revolving facility.

The proceeds of the borrowing under the additional tranche D term loans (which were issued at a discount of \$0.5 million) were used to prepay senior credit facility borrowings as described above. Excluding this discount, costs incurred in connection with this debt refinancing totaled \$3.8 million, of which \$0.4 million was attributable to third party costs. Such third-party costs were expensed as incurred and included in loss on debt prepayment in our consolidated statement of operations and comprehensive loss for the year ended December 31, 2003. The remaining \$3.4 million of debt refinancing costs were included in other assets in our consolidated balance sheet and are being amortized using the effective interest method.

November 2003 Amendment to Senior Bank Facilities and Loan Repricing

In November 2003, we refinanced \$368.5 million of term loans under our senior bank facilities. We replaced our tranche B, tranche C and tranche D term loan facilities under our senior bank facilities with a single new tranche E term loan facility with terms, other than the interest rate, that are identical to those of the tranche D term loan facility. The new tranche E is due throughout 2006 and 2007, ending in 2007. We also reduced the interest rate on our term loans by 0.75% per annum. Costs incurred in connection with this refinancing totaled \$1.0 million, of which \$0.2 million was attributable to third party costs, which were expensed as incurred and

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included in loss on debt prepayment in our consolidated statement of operations and comprehensive loss for the year ended December 31, 2003. The remaining \$0.8 million of debt refinancing costs were included in other assets in our consolidated balance sheet and are being amortized using the effective interest method.

November 2003 Extension of Chinese Bank Loan

In November 2003, we exercised our ability to extend the maturity of our \$20.0 million loan facility with a Chinese bank for three years under the same terms and conditions thereby extending scheduled principal payments to \$10.5 million due in the fourth quarter of 2006 and \$9.5 million due in the first quarter of 2007. In March 2004, we amended the renewal provisions in the loan agreement to provide for three unconditional one-year renewal terms.

December 2003 Chinese Bank Loan

In December 2003, we prepaid approximately \$48.0 million of the tranche E term loans under our senior bank facilities with the proceeds from a new loan provided to our joint venture in Leshan, China by the China Construction Bank. The loan facility is comprised of two \$24 million tranches. The first tranche has a 10-year term with a balloon payment due December 2013; the second tranche has a three-year term with scheduled principal payments through December 2006, which is extendible for an additional three years under certain circumstances. Each tranche bears interest at a rate of LIBOR plus 1.5% per annum, payable quarterly as compared to LIBOR plus 3.25% under our senior bank facilities.

February 2004 Public Offering of Common Stock and Amendment to Senior Bank Facilities

On February 9, 2004, we and our principal stockholder, Texas Pacific Group, completed a public offering of common stock pursuant to which we issued approximately 34.4 million shares at a public offering price of \$6.98 per share. The net proceeds to us from the offering were approximately \$226.7 million (after deducting the underwriters' discounts of \$10.8 million and offering expenses of \$2.4 million). We intend to use a portion of the net proceeds received by us to redeem \$70.0 million outstanding principal amount of our first lien senior secured notes and \$105.0 million outstanding principal amount of our second lien senior secured notes, in each case on March 10, 2004 at a redemption price of 112.0% of the principal amount of the notes to be redeemed, together with accrued interest to the redemption date. We intend to use the remaining net proceeds for general corporate purposes. In connection with this redemption, we intend to write off approximately \$12.0 million of debt issuance costs. We did not receive any of the proceeds from the sale of shares by the selling stockholder.

In connection with the offering, we amended our senior bank facilities to, among other things:

- waive the requirement under the credit agreement relating to our senior bank facilities that 50% of the net proceeds of such offering be used to prepay loans under the facilities;
- permit sale and leaseback transactions involving real or personal property with an aggregate fair value of up to \$15 million (and permit the asset sales in connection therewith) and provide that net proceeds from asset sales in connection with such transaction will not be required to be used to prepay loans under the senior bank facilities; and
- permit us to purchase, redeem or retire a portion of our first lien senior secured notes due 2010, second lien senior secured notes due 2008 and senior subordinated notes due 2009 with the proceeds of such offering within 270 days after its completion so long as no default or event of default exists under the credit agreement after giving effect to such purchases, redemptions or retirements, such purchases, redemptions or retirements comply with the indentures governing such notes and we immediately cancel any such notes that are purchased, redeemed or retired.

See Note 7 "Long-Term Debt," Note 10 "Redeemable Preferred Stock" and Note 11 "Common Stock" of the notes to our audited consolidated financial statements included elsewhere in this report.

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Debt Instruments, Guarantees and Related Covenants

The following table presents the components of long-term debt as of December 31, 2003 and 2002:

	December 31, 2003		December 31, 2002	
	Interest Rate	Balance	Interest Rate	Balance
Senior Bank Facilities:				
Tranche A	—%	\$ —	6.4375%	\$ 6.6
Tranche B	—	—	6.4375	209.9
Tranche C	—	—	6.4375	226.0
Tranche D	—	—	6.4375	134.1
Tranche E	4.4375	320.1	—	—
Revolver	—	—	6.4375	125.0
		<u>320.1</u>		<u>701.6</u>
First-Lien Senior Secured Notes due 2010, 13% interest payable semi-annually, net of debt discount of \$8.4		191.6		—
Second-Lien Senior Secured Notes due 2008, 13% interest effective February 2003 payable semi-annually, net of debt discount of \$7.4 and \$8.6		292.6		291.4
12% Senior Subordinated Notes due 2009, interest payable semi-annually		260.0		260.0
10% Junior Subordinated Note due 2011, interest compounded semi-annually, payable at maturity		139.9		126.9
2.3% Note payable to Japanese bank due 2010, interest payable semi-annually		24.3		23.3
Loan with a Chinese bank due 2006, interest payable quarterly at 3.1% and 3.5%, respectively		20.0		20.0
Loan with a Chinese bank, interest payable quarterly at 2.7%		48.0		—
Capital lease obligation		6.4		—
		<u>1,302.9</u>		<u>1,423.2</u>
Less: Current maturities		(11.4)		(19.8)
		<u>\$ 1,291.5</u>		<u>\$ 1,403.4</u>

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, first lien secured notes and second lien secured notes.

Semiconductor Components Industries, 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 and Semiconductor Components Industries, LLC are co-issuers of our first lien senior secured notes due 2010, our second lien senior secured notes due 2008 and senior subordinated notes due 2009. 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 guarantees the senior bank facilities or the notes.

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As of December 31, 2003, 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 first lien senior secured notes due 2010, second lien senior secured notes due 2008 and our senior subordinated notes due 2009. We believe that we will be able to comply with the various covenants and other requirements contained in such credit agreement and indentures through December 31, 2004.

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 Semiconductor Components Industries, 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, and a minimum amount of cash and cash equivalents. 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

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

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The impact of this change for periods prior to January 1, 2003 was a charge of \$21.5 million or \$0.11 per share, both before and after income taxes, and has been reflected as the cumulative effect of a change in accounting principle in our consolidated statement of operations for 2003. The effect of the change in 2003 was to decrease the loss before cumulative effect of accounting change by \$6.4 million or \$0.03 per share, both before and after income taxes, and to increase the net loss by \$16.0 million or \$0.09 per share, both before and after income taxes. Absent the accounting change, the \$21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

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

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

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

During the first quarter of 2002, we identified our various reporting units, which correspond with our four product lines, and allocated our assets and liabilities to such reporting units. The goodwill relating to the Cherry acquisition was specifically identified with and included in our Power Management and Standard Analog reporting unit. During the second quarter of 2002, we completed the first step of its transitional goodwill impairment test and determined that the estimated fair value of the Power Management and Standard Analog reporting unit as of January 1, 2002 exceeded the reporting unit’s carrying amount by a substantial amount. As a result, an impairment of the Cherry goodwill as of that date was not indicated and completion of the second step test was not required. We updated our goodwill impairment analysis during the fourth quarter of 2002 and 2003 and determined that a related impairment did not exist.

As mentioned below in “Critical Accounting Policies and Estimates,” effective January 1, 2001, we changed our accounting method for recognizing revenue on sales to distributors. Recognition of revenue and related gross profit on sales to distributors is now deferred until the distributor resells the product. We believe that this change better aligns reported results with, focuses us on, and allows investors to better understand end user demand for

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the products that we sell through distributors. Our new revenue recognition policy is commonly used in the semiconductor industry. The cumulative effect of the accounting change for periods prior to January 1, 2001 was a charge of \$155.2 million (\$116.4 million, or \$0.67 per share, net of income taxes). The accounting change resulted in an increase in revenues of \$116.6 million and a decrease in our net loss before cumulative effect of accounting change of \$53.1 million, or \$0.30 per share, for the year ended December 31, 2001.

Also effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which establishes standards for the accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and hedging activities. Our interest rate swaps in effect at January 1, 2001 were designated as cash flow hedges, were measured at fair value and recorded as assets or liabilities in the consolidated balance sheet. Upon adoption of SFAS No. 133, we recorded a charge of \$5.7 million to accumulated other comprehensive income (loss) as of January 1, 2001. This charge consisted of a \$2.2 million adjustment to record our interest rate swaps in the consolidated balance sheet at their estimated fair values as well as the write-off of an approximate \$3.5 million pretax deferred charge (included in other assets in the accompanying consolidated balance sheet at December 31, 2000) relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under our senior bank facilities.

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

Critical Accounting Policies and Estimates

The accompanying discussion and analysis of our financial condition and results of operation 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. Note 3 "Significant Accounting Policies" of the notes to our audited consolidated financial statements included elsewhere in this report contain a detailed summary of our significant accounting policies. 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.

Effective January 1, 2001, we changed our revenue recognition policy for distributor sales so that the related revenues are now deferred until the distributor resells the product to the end user. This change eliminated the need to provide for estimated sales returns from distributors. Title to products sold to distributors typically passes at the time of shipment by us so we record accounts receivable for the amount of the transaction, reduce our inventory for the products shipped and defer the related margin in our consolidated balance sheet. We recognize the related revenue and margin when the distributor sells 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.

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Inventories. We carry our inventories at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market and record provisions for slow moving inventories based upon a regular analysis of inventory on hand compared to historical and projected end user demand. Projected end user demand is generally based on sales during the prior twelve months. These provisions can influence our results from operations. For example, when demand falls for a given part, all or a portion of the related inventory is reserved, impacting our cost of sales and gross profit. If demand recovers and the parts previously reserved are sold, we will generally recognize a higher than normal margin. However, the vast 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 2002 and 2003, 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 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 would impact the future expense recognition and cash funding requirements of our pension plans.

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Convertible Redeemable Preferred Stock. We account for the difference between the carrying amount of our convertible redeemable preferred stock and the redemption value by increasing the carrying amount for periodic accretion so that the carrying amount equals the redemption value at the earliest available redemption date. The periodic accretion amount changes as our stock price changes and as additional dividends accrue. Based on the average closing price of our common stock over the last 30 trading days preceding December 31, 2003 of \$6.19, the accretion charge, in respect to the redemption feature, for the fourth quarter of 2003 was \$0.5 million. For every one dollar increase in the average closing price used in the accretion calculation, the accretion charge we would record in the first quarter of 2004 will increase by approximately \$0.9 million.

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.

Recent Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not impact our financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer that must be classified as liabilities and carried at liquidation value. Such freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase the issuer's equity shares by transferring assets, and certain obligations to issue a variable number of shares. Equity securities of consolidated entities that meet the definition of a mandatorily redeemable security by virtue of having a finite life ("mandatorily redeemable minority interests") are included in the scope of SFAS No. 150. The minority interest associated with our investment in Leshan is a mandatorily redeemable minority interest within the scope of SFAS No. 150 by virtue of Leshan's finite life of 50 years as specified in its organizational documents. In November 2003, the FASB issued Staff Position No. 150-3 which deferred the measurement and classification provisions of SFAS No. 150 relating to Leshan pending further action by the FASB. We are required to disclose the liquidation value of the Leshan minority interest which we believe approximates the related carrying value of \$26.0 million at December 31, 2003. Our adoption of the other provisions of SFAS No. 150 in 2003 did not impact our financial condition or results of operations.

In December 2003, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits (revised 2003)," "SFAS No. 132". SFAS No. 132 requires additional disclosures to those in the original SFAS No. 132 with respect to the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132, which also requires new disclosures for interim periods beginning after December 15, 2003, is effective for fiscal years ending after December 15, 2003 except for certain disclosures associated with foreign plans which are required for years ended after June 15, 2004. We adopted this Statement for the year ended December 31, 2003 and included the required disclosures in Note 13 "Employee Benefit Plans" in the notes to our audited consolidated financial statements included elsewhere in this report.

Trends, Risks and Uncertainties

This Annual Report on Form 10-K 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

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than statements of historical facts, included or incorporated in this Form 10-K are forward-looking statements, particularly statements about our plans, strategies and prospects under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” Forward-looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “will,” “intends,” “plans,” or “anticipates,” or by discussions of strategy, plans or intentions. All forward-looking statements in this Form 10-K 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 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, 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 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 the description of trends, risks and uncertainties that is set forth below and similar disclosures in subsequently filed reports. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information.

You should carefully consider the trends, risks and uncertainties described below and other information in this Form 10-K and subsequent reports filed with the Securities and Exchange Commission before making any investment decision with respect to our securities. If any of the following trends, risks or uncertainties actually occurs or continues, our business, financial condition or operating results could be materially adversely affected, the trading prices of our securities could decline, and you could lose all or part of your investment. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Trends, Risks and Uncertainties Related to Our Business

We have experienced declines in revenues and operating losses, and we may experience additional declines in revenues and operating losses in the future.

Our historical financial results have been, and our future financial results are anticipated to be subject to substantial fluctuations. Our revenues for 2003 were \$1,069.1 million, compared to \$1,093.7 million for 2002 and \$1,223.2 million in 2001. This decline was due primarily to declines in the average selling prices for our products. We incurred net losses of \$166.7 million, \$141.9 million and \$831.4 million in 2003, 2002 and 2001, respectively. The most recent downturn in our business has been most pronounced with respect to our high frequency clock and data management products. Revenues from high frequency clock and data management products represented \$ 80.5 million, \$72.0 million and \$118.5 million, or 7.5%, 6.6% and 9.8% of the total revenues, in 2003, 2002 and 2001, respectively.

Reduced end-user demand, continued price declines, excess inventory, underutilization of our manufacturing capacity and other factors could adversely affect our business in the near term and we may experience additional declines in revenue and operating losses in the future. In order to return to profitability, we must successfully implement our business plan, including our cost reduction initiatives. However, we also currently face an environment of uncertain demand and pricing pressure in the markets our products address. We cannot assure you that we will be able to return to profitability or that we will be able to sustain our profitability, if achieved.

We operate in the highly cyclical semiconductor industry, which is subject to significant downturns.

The semiconductor industry is highly cyclical. The industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles (for semiconductors and for the end-user products in which they are used) and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. We have experienced these conditions in our business in the past and may experience such downturns in the future. The most recent downturn, which began in the fourth quarter of 2000, was severe and prolonged, and it is uncertain whether recent improvements in semiconductor industry performance will continue or whether such improvements will benefit us to the same extent as they benefit other industry participants. Future downturns in the semiconductor industry may also be severe and prolonged. Future downturns in the semiconductor industry, or any failure of the industry to fully recover from its recent downturn, could seriously impact our revenues and harm our business, financial condition and results of operations.

During the 1990s and continuing into 2000, the semiconductor industry enjoyed unprecedented growth, benefiting from the rapid expansion of the internet and other computing and communications technologies. During 2001, we — like many of our customers and competitors — were adversely affected by a general economic slowdown and an abrupt decline in demand for many of the end-user products that incorporate our integrated circuits and standard semiconductors. The terrorist attacks of September 11, 2001 also further depressed economic activity and demand for end-user products. The impact of slowing end-customer demand was compounded by higher than normal levels of equipment and component inventories among our original equipment manufacturer, subcontractor and distributor customers, resulting in increasing pricing pressure. We expect that factors including, but not limited to, economic uncertainty and downturns relating to the threat or actual occurrence of armed international conflict or terrorist attacks, reduced demand for end-user products, underutilization of our manufacturing capacity and changes in our revenue mix could adversely impact our operating results in the near term.

Our gross margin is dependent on a number of factors, including our level of capacity utilization.

Semiconductor manufacturing requires significant capital investment, leading to high fixed costs, including depreciation expense. If we are unable to utilize our manufacturing and testing facilities at a high level, the fixed costs associated with these facilities will not be fully absorbed, resulting in higher average unit costs and lower gross margins. The decline in product orders and shipments in 2001 resulted in reduced capacity utilization of our facilities as we have attempted to match production with anticipated customer demand. As a percentage of revenues, gross margin was 28.2% for 2003, compared to 27.3% for 2002 and 18.4% in 2001. Although our gross margin as a percent of revenues improved between 2001 and 2002, gross margin declined sequentially in the fourth quarter of 2002, the first quarter of 2003 and the third quarter of 2003, in each case as a result of pricing pressure. Increased competition and other factors may lead to further price erosion, lower revenues and lower margins for us in the future.

The failure to implement, as well as the completion and impact of, our profitability enhancement programs and cost reductions could adversely affect our business.

Between 2000 and the end of 2003, we implemented a number of cost reduction initiatives in response to the significant downturn in our industry. These initiatives have included accelerating our manufacturing moves into lower cost regions, transitioning higher-cost external supply to internal manufacturing, working with our material suppliers to further lower costs, personnel reductions, reductions in employee compensation, temporary shutdowns of facilities with mandatory vacation and aggressively streamlining our overhead. However, we cannot assure you that these cost reduction initiatives will, in and of themselves, return us to profitability.

We recorded restructuring charges of \$150.4 million in 2001, \$27.7 million in 2002 and \$61.2 million in 2003 to cover costs associated with our cost reduction initiatives. These costs were primarily comprised of employee separation costs and asset impairments. The impact of these restructuring actions on our ability to

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compete effectively is subject to risks and uncertainties. Because our restructuring activities involve changes to many aspects of our business, the cost reductions could adversely impact productivity and sales to an extent we have not anticipated. Even if we fully execute and implement these activities and they generate the anticipated cost savings, there may be other unforeseeable factors that could adversely impact our profitability and business.

If we are unable to implement our business strategy, our revenues and profitability may be adversely affected.

Our future financial performance and success are largely dependent on our ability to implement our business strategy successfully. Our present business strategy to build upon our position as a global supplier of power and data management semiconductors and standard semiconductor components includes, without limitation, plans to: (1) maintain and refine our product portfolio; (2) continue to develop leading edge customer support services; (3) expand further our just-in-time delivery capabilities; (4) increase our die manufacturing capacity in a cost-effective manner; (5) reduce further the number of our product platforms and process flows; (6) continue to manage our existing portfolio of products aggressively; (7) rationalize our manufacturing operations; (8) relocate manufacturing operations or outsource to lower cost regions; (9) reduce selling and administrative expenses; (10) reduce capital expenditures; (11) actively manage working capital; (12) develop new products in a more efficient manner; and (13) focus on the development of power management and standard analog and high frequency clock and data management products. We cannot assure you that we will successfully implement our business strategy or that implementing our strategy will sustain or improve our results of operations. In particular, we cannot assure you that we will be able to build our position in markets with high growth potential, increase our volume or revenue, rationalize our manufacturing operations or reduce our costs and expenses.

Our business strategy is based on our assumptions about the future demand for our current products and the new products and applications that we are developing and on our ability to produce our products profitably. Each of these factors depends on our ability, among other things, to finance our operating and product development activities, maintain high quality and efficient manufacturing operations, relocate and close manufacturing facilities and reduce operating expenses as part of our ongoing cost restructuring with minimal disruption to our operations, access quality raw materials and contract manufacturing services in a cost-effective and timely manner, protect our intellectual property portfolio and attract and retain highly-skilled technical, managerial, marketing and finance personnel. Several of these and other factors that could affect our ability to implement our business strategy, such as risks associated with international operations, the threat or occurrence of armed international conflict and terrorist activities, increased competition, legal developments and general economic conditions, are beyond our control. In addition, circumstances beyond our control and changes in our business or industry may require us to change our business strategy.

We may require additional capital in the future, and additional funds may not be available on terms acceptable to us.

We believe that our existing cash and cash equivalents, together with the cash that we expect to generate from our operations and sales of assets in the ordinary course of business, will be sufficient to meet our planned capital needs for the next twelve months. However, it is possible that we may need to raise additional capital to fund our future activities or to consummate acquisitions of other businesses, products or technologies. As of March 1, 2004, we have \$12.3 million of borrowing capacity available under our revolving credit facility. Subject to the restrictions contained in our senior bank facilities and the indentures governing our first lien senior secured notes due 2010, our second lien senior secured notes due 2008 and our senior subordinated notes due 2009, we may be able to raise these funds by selling securities to the public or selected investors, or by borrowing money. We may not be able to obtain additional funds on favorable terms, or at all. If adequate funds are not available, we may be required to curtail our operations significantly, reduce planned capital expenditures and research and development, make selective dispositions of our assets or obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain technologies or potential markets, or otherwise impair our ability to remain competitive.

We may be unable to make the substantial research and development investments required to remain competitive in our business.

The semiconductor industry requires substantial investment in research and development in order to develop and bring to market new and enhanced technologies and products. We are committed to maintaining spending on new product development in order to stay competitive in our markets. We cannot assure you that we will have sufficient resources to maintain the level of investment in research and development that is required to remain competitive. The primary emphasis of our new product development is in the power management and standard analog and high frequency clock and data management solutions, with over 70% of our overall research and development investment targeted in these areas.

Uncertainties involving the ordering and shipment of, and payment for, our products could adversely affect our business.

Our sales are typically made pursuant to individual purchase orders and we generally do not have long term supply arrangements with our customers. Generally, our customers may cancel orders 30 days prior to shipment without incurring significant penalty. We routinely purchase inventory based on customers' estimates of demand for their products, which is difficult to predict. This difficulty may be compounded when we sell to original equipment manufacturers indirectly through distributors or contract manufacturers, or both, as our forecasts for demand are then based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to failure of anticipated orders to materialize could result in excess obsolete inventory, which could result in write-downs of inventory or the incurrence of significant cancellation penalties under our arrangements with our raw materials and equipment suppliers.

During 2001, the markets in which our customers operate were characterized by a dramatic decline in end-user demand and continued high levels of channel inventories, which reduced visibility of future demand for our products and, in some cases, led to delays or defaults in payments for our products. In 2002 and the first half of 2003, short customer lead times prevailed given the over-capacity in the industry. These and other factors adversely affected our revenues during this period.

An inability to introduce new products could adversely affect us, and changing technologies or consumption patterns could reduce the demand for our products.

Rapidly changing technologies and industry standards, along with frequent new product introductions, characterize the industries that are currently the primary end-users of semiconductors. As these industries evolve and introduce new products, our success will depend on our ability to predict and adapt to these changes in a timely and cost-effective manner by designing, developing, manufacturing, marketing and providing customer support for our own new products and technologies.

We cannot assure you that we will be able to identify changes in the product markets and requirements of our customers and end-users and adapt to such changes in a timely and cost-effective manner. Nor can we assure you that products or technologies that may be developed in the future by our competitors and others will not render our products or technologies obsolete or noncompetitive. A fundamental shift in technologies or consumption patterns in our existing product markets or the product markets of our customers or end-users could have a material adverse effect on our business or prospects.

Competition in our industry could prevent us from maintaining our revenues and from raising prices to offset increases in costs.

The semiconductor industry, particularly the market for semiconductor components, is highly competitive. As a result of the recent economic downturn, competition in the markets in which we operate has intensified as manufacturers of semiconductor components have offered reduced prices in order to combat production

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overcapacity and high inventory levels. Although only a few companies compete with us in all of our product lines, we face significant competition within each of our product lines from major international semiconductor companies as well as smaller companies focused on specific market niches. In addition, companies not currently in direct competition with us may introduce competing products in the future. The semiconductor components industry has also been undergoing significant restructuring and consolidations that could adversely affect our competitiveness.

Many of our competitors may have certain advantages over us, including substantially greater financial and other resources with which to withstand adverse economic or market conditions and pursue development, engineering, manufacturing, marketing and distribution of their products; longer independent operating histories and presence in key markets; patent protection; and greater name recognition.

Because our components are often building block semiconductors that in some cases can be integrated into more complex integrated circuits, we also face competition from manufacturers of integrated circuits, application-specific integrated circuits and fully customized integrated circuits, as well as customers who develop their own integrated circuit products.

We compete in different product lines to various degrees on the basis of price, quality, technical performance, product features, product system compatibility, customized design, strategic relationships with customers, new product innovation, availability, delivery timing and reliability and customer sales and technical support. Gross margins in the industry vary by geographic region depending on local demand for the products in which semiconductors are used, such as personal computers, industrial and telecommunications equipment, consumer electronics and automotive goods. Our ability to compete successfully depends on elements both within and outside of our control, including industry and general economic trends.

Unless we maintain manufacturing efficiency, our future profitability could be adversely affected.

Manufacturing semiconductor components involves highly complex processes that require advanced equipment. We and our competitors continuously modify these processes in an effort to improve yields and product performance. Impurities or other difficulties in the manufacturing process can lower yields. Our manufacturing efficiency will be an important factor in our future profitability, and we cannot assure you that we will be able to maintain our manufacturing efficiency or increase manufacturing efficiency to the same extent as our competitors.

From time to time, we have experienced difficulty in beginning production at new facilities, transferring production to other facilities or in effecting transitions to new manufacturing processes that have caused us to suffer delays in product deliveries or reduced yields. We cannot assure you that we will not experience manufacturing problems in achieving acceptable yields or experience product delivery delays in the future as a result of, among other things, capacity constraints, construction delays, transferring production to other facilities, upgrading or expanding existing facilities or changing our process technologies, any of which could result in a loss of future revenues. Our results of operations could also be adversely affected by the increase in fixed costs and operating expenses related to increases in production capacity if revenues do not increase proportionately.

We could be required to incur significant capital expenditures for manufacturing technology and equipment to remain competitive.

In view of industry conditions in recent years, we reduced our capital expenditures from \$149.0 million in 2001, to \$40.5 million in 2002. In 2003, however, our capital expenditures totaled \$59.8 million. We may be required to increase our future capital expenditures to meet increased demand.

Semiconductor manufacturing has historically required, and in the future is likely to continue to require, a constant upgrading of process technology to remain competitive, as new and enhanced semiconductor processes

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are developed which permit smaller, more efficient and more powerful semiconductor devices. We maintain certain of our own manufacturing, assembly and test facilities, which have required and will continue to require significant investments in manufacturing technology and equipment. We have made substantial capital expenditures and installed significant production capacity to support new technologies and increased production volume.

We cannot assure you that we will have sufficient capital resources to make necessary investments in manufacturing technology and equipment. In addition, our principal credit agreement limits the amount of our capital expenditures.

If we were to lose one of our large customers, our revenues and profitability could be adversely affected.

Product sales to our ten largest customers accounted in the aggregate for approximately 54%, 52% and 46% of our total revenues in 2003, 2002 and 2001, respectively. Many of our customers operate in cyclical industries, and in the past we have experienced significant fluctuations from period to period in the volume of our products ordered. Generally, our agreements with our customers impose no minimum or continuing obligations to purchase our products. We cannot assure you that any of our customers will not significantly reduce orders or seek price reductions in the future or that the loss of one or more of our customers would not have a material adverse effect on our business or prospects.

The loss of our sources of raw materials or manufacturing services, or increases in the prices of such goods or services, could adversely affect our operations and productivity.

Our results of operations could be adversely affected if we are unable to obtain adequate supplies of raw materials in a timely manner or if the costs of our raw materials increase significantly or their quality deteriorates. Our manufacturing processes rely on many raw materials, including silicon wafers, copper lead frames, mold compound, ceramic packages and various chemicals and gases. Generally, our agreements with suppliers impose no minimum or continuing supply obligations, and we obtain our raw materials and supplies from a large number of sources on a just-in-time basis. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Although we believe that our current supplies of raw materials are adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry.

In addition, for some of our products, such as our new Silicon Germanium (SiGe) technology, we are dependent upon a limited number of highly specialized suppliers for required components and materials. The number of qualified alternative suppliers for these kinds of technologies is extremely limited. We cannot assure you that we will not lose our suppliers for these key technologies or that our suppliers will be able to meet performance and quality specifications or delivery schedules. Disruption or termination of our limited supply sources for these components and materials could delay our shipments of products utilizing these technologies and damage relationships with current and prospective customers.

We also use third-party contractors for some of our manufacturing activities, primarily for wafer fabrication and the assembly and testing of final goods. These contract manufacturers, including Amkor, PSI, AIT, ASE, KEC, Hynix, Liteon, Chartered and Phenitec, accounted for approximately 26%, 30% and 31% of our cost of sales in 2003, 2002 and 2001, respectively. Our agreements with these manufacturers typically require us to forecast product needs and commit to purchase services consistent with these forecasts, and in some cases require longer-term commitments in the early stages of the relationship. Our operations could be adversely affected if these contractual relationships were disrupted or terminated, the cost of such services increased significantly, the quality of the services provided deteriorated or our forecasts proved to be materially incorrect.

In the case of Motorola, we agreed to continue providing manufacturing services to each other (including Motorola's manufacturing of our emitter-coupled logic products) for limited periods of time following our 1999

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recapitalization. Under our agreements with Motorola, the prices of these services are fixed at levels that are intended to approximate each party's cost of providing the services. We fulfilled our minimum commitments to purchase manufacturing services from Motorola in 2002. We could be adversely affected if we are unable to relocate these manufacturing operations to our own facilities or to other third-party manufacturers on cost-effective terms or make other satisfactory arrangements prior to the time when these agreements expire.

Acquisitions and strategic alliances may harm our operating results or cause us to incur debt or assume contingent liabilities or dilute our stockholders.

We may in the future acquire and form strategic alliances relating to other businesses, products and technologies. Successful acquisitions and alliances in the semiconductor industry are difficult to accomplish because they require, among other things, efficient integration and aligning of product offerings and manufacturing operations and coordination of sales and marketing and research and development efforts. The difficulties of integration and alignment may be increased by the necessity of coordinating geographically separated organizations, the complexity of the technologies being integrated and aligned and the necessity of integrating personnel with disparate business backgrounds and combining different corporate cultures. The integration and alignment of operations following an acquisition or alliance requires the dedication of management resources that may distract attention from the day-to-day business, and may disrupt key research and development, marketing or sales efforts. In addition, we may issue equity securities to pay for future acquisitions or alliances, which could be dilutive to existing stockholders. We may also incur debt or assume contingent liabilities in connection with acquisitions and alliances, which could harm our operating results. Without strategic acquisitions and alliances we may have difficulty meeting future customer product and service requirements.

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

Approximately 37%, 44% and 19% of our total revenues in 2002 and 30%, 52% and 18% of our total revenues in 2003 were derived from the Americas, the Asia/Pacific region and Europe (including the Middle East), respectively. We maintain significant operations in Seremban, Malaysia; Carmona, the Philippines; Aizu, Japan; Leshan, China; Roznov, the Czech Republic; and Piestany, the Slovak Republic. In addition, we rely on a number of contract manufacturers whose operations are primarily located in the Asia/Pacific region.

We cannot assure you that we will be successful in overcoming the risks that relate to or arise from operating in international markets. Risks inherent in doing business on an international level include, among others, the following:

- economic and political instability (including as a result of the threat or occurrence of armed international conflict or terrorist attacks);
- changes in regulatory requirements, tariffs, customs, duties and other trade barriers;
- transportation delays;
- power supply shortages and shutdowns;
- difficulties in staffing and managing foreign operations and other labor problems;
- currency convertibility and repatriation;
- taxation of our earnings and the earnings of our personnel; and
- other risks relating to the administration of or changes in, or new interpretations of, the laws, regulations and policies of the jurisdictions in which we conduct our business.

Our activities outside the United States are subject to additional risks associated with fluctuating currency values and exchange rates, hard currency shortages and controls on currency exchange. While our sales are

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primarily denominated in U.S. dollars, worldwide semiconductor pricing is influenced by currency rate fluctuations.

If we fail to attract and retain highly-skilled personnel, our results of operations and competitive position could deteriorate.

Our success depends upon our ability to attract and retain highly-skilled technical, managerial, marketing and finance personnel. The market for personnel with such qualifications is highly competitive. For example, analog component designers are difficult to attract and retain, and the failure to attract and retain analog component designers could compromise our ability to keep pace with our competitors in the market for analog components. We have not entered into employment agreements with all of our key personnel. As employee incentives, we issue common stock options that generally have exercise prices at the market value at time of the grant and that are subject to vesting. At times, our stock price has declined substantially, reducing the effectiveness of these incentives. Loss of the services of, or failure to effectively recruit, qualified personnel, including senior managers and design engineers, could have a material adverse effect on our business.

We use a significant amount of intellectual property in our business. Some of that intellectual property is currently subject to disputes with third parties, and litigation could arise in the future. If we are unable to protect the intellectual property we use, our business could be adversely affected.

We rely on patents, trade secrets, trademarks, mask works and copyrights to protect our products and technologies. Some of our products and technologies are not covered by any patents or pending patent applications, and we cannot assure you that:

- any of the substantial number of U.S. and foreign patents and pending patent applications that we employ in our business, including those that Motorola assigned, licensed or sublicensed to us in connection with our 1999 recapitalization, will not lapse or be invalidated, circumvented, challenged, abandoned or licensed to others;
- the license rights granted by Motorola in connection with our recapitalization will provide competitive advantages to us;
- any of our pending or future patent applications will be issued or have the coverage originally sought;
- any of the trademarks, copyrights, trade secrets, know-how or mask works that Motorola has assigned, licensed or sublicensed to us in connection with our recapitalization will not lapse or be invalidated, circumvented, challenged, abandoned or licensed to others; or
- any of our pending or future trademark, copyright, or mask work applications will be issued or have the coverage originally sought.

In addition, our competitors or others may develop products or technologies that are similar or superior to our products or technologies, duplicate our products or technologies or design around our protected technologies. Effective patent, trademark, copyright and trade secret protection may be unavailable, limited or not applied for in the United States and in foreign countries.

Also, we may from time to time in the future be notified of claims that we may be infringing third-party patents or other intellectual property rights. Motorola has agreed to indemnify us for a limited period of time with respect to some claims that our activities infringe on the intellectual property rights of others. If necessary or desirable, we may seek licenses under such patents or intellectual property rights. However, we cannot assure you that we will obtain such licenses or that the terms of any offered licenses will be acceptable to us. The failure to obtain a license from a third party for technologies we use could cause us to incur substantial liabilities or to suspend the manufacture or shipment of products or our use of processes requiring the technologies. Litigation could cause us to incur significant expense, by adversely affecting sales of the challenged product or

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technologies and diverting the efforts of our technical and management personnel, whether or not such litigation is resolved in our favor. In the event of an adverse outcome in any such litigation, we may be required to:

- pay substantial damages;
- cease the manufacture, use, sale or importation of infringing products;
- expend significant resources to develop or acquire non-infringing technologies;
- discontinue the use of processes; or
- obtain licenses to the infringing technologies.

We cannot assure you that we would be successful in any such development or acquisition or that any such licenses would be available to us on reasonable terms. Any such development, acquisition or license could require the expenditure of substantial time and other resources.

We will also seek to protect our proprietary technologies, including technologies that may not be patented or patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with our collaborators, advisors, employees and consultants. We cannot assure you that these agreements will not be breached, that we will have adequate remedies for any breach or that persons or institutions will not assert rights to intellectual property arising out of our research.

We are party to securities class action litigation which may be costly to defend and the outcome of which is uncertain.

In July 2001, three stockholder class action lawsuits were filed in the United States District Court for the Southern District of New York against us, certain of our former officers, current and former directors and various investment banking firms who acted as underwriters in connection with our initial public offering in May 2000. In April 2002, the plaintiffs filed a consolidated, amended complaint that supercedes the individual complaints originally filed. The amended complaint generally alleges that our offering documents failed to disclose certain underwriting fees and commissions and underwriter tie-ins and other arrangements with certain customers of the underwriters that impacted the price of our common stock in the after-market. The plaintiffs are seeking unspecified damages. On July 15, 2002, together with other issuer defendants, we filed a collective motion to dismiss the class action lawsuit. On February 19, 2003, as to the claims brought against us under the antifraud provisions of the securities laws, the Court dismissed these claims with prejudice. As to the claims brought under the registration provisions of the securities laws, the Court denied the motion to dismiss these claims. In addition, the parties have stipulated to the voluntary dismissal without prejudice of the current and former directors and officers who were named as individual defendants in the litigation. 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. Formal settlement documents for submission to the court are currently being drafted. If this proposed settlement is ultimately finalized and then submitted to and approved by the Court, it would result in a 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.

We can provide no assurance as to the outcome of this securities litigation. Any conclusion of this litigation in a manner adverse to us could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, the cost to us of defending the litigation, even if resolved in our favor, could be substantial. Such litigation could also substantially divert the attention of our management and our resources in general. Uncertainties resulting from the initiation and continuation of this litigation could harm our ability to compete in the marketplace. Because the price of our common stock has been, and may continue to be, volatile, we can provide no assurance that additional securities litigation will not be filed against us in the future.

Environmental and other regulatory matters could adversely affect our ability to conduct our business and could require expenditures that could have a material adverse effect on our results of operations and financial condition.

Our manufacturing operations are subject to various environmental laws and regulations relating to the management, disposal and remediation of hazardous substances and the emission and discharge of pollutants into the air and water. Our operations are also subject to laws and regulations relating to workplace safety and worker health, which, among other things, regulate employee exposure to hazardous substances. Motorola has agreed to indemnify us for environmental and health and safety liabilities related to the conduct or operations of our business or Motorola's ownership, occupancy or use of real property occurring prior to the closing of our 1999 recapitalization. We also have purchased environmental insurance to cover certain claims related to historical contamination and future releases of hazardous substances. However, we cannot assure you that such indemnification arrangements and insurance policy will cover all material environmental costs. In addition, the nature of our operations exposes us to the continuing risk of environmental and health and safety liabilities related to events or activities occurring after our recapitalization.

Based on information currently available to us, we believe that the future cost of compliance with existing environmental and health and safety laws and regulations, and any liability for currently known environmental conditions, will not have a material adverse effect on our business or prospects. However, we cannot predict:

- changes in environmental or health and safety laws or regulations;
- the manner in which environmental or health and safety laws or regulations will be enforced, administered or interpreted;
- our ability to enforce and collect under indemnity agreements and insurance policies relating to environmental liabilities; or
- the cost of compliance with future environmental or health and safety laws or regulations or the costs associated with any future environmental claims, including the cost of clean-up of currently unknown environmental conditions.

Terrorist attacks, such as the attacks that occurred in New York and Washington D.C. on September 11, 2001, or threats or occurrences of international armed conflict or other terrorist activities both in the United States and internationally may affect the markets in which our common stock trades, the markets in which we operate and our profitability.

On September 11, 2001 the United States was the target of terrorist attacks of unprecedented scope. The threat or occurrences of international armed conflict or other terrorist activities both in the United States and internationally may affect the markets in which our common stock trades, the market in which we operate and our profitability. The terrorist attacks have caused instability in the global financial markets and future or threatened terrorist attacks or occurrences of international armed conflict could result in greater economic instability.

Warranty claims, product liability claims and product recalls could harm our business, results of operations and financial condition.

We face an inherent business risk of exposure to warranty and product liability claims in the event that our products fail to perform as expected or such failure of our products results, or is alleged to result, in bodily injury or property damage (or both). In addition, if any of our designed products are or are alleged to be defective, we may be required to participate in their recall. As suppliers become more integrally involved in the electrical design, Original Equipment Manufacturers are increasingly expecting them to warrant their products and are increasingly looking to them for contributions when faced with product liability claims or recalls. A successful warranty or product liability claim against us in excess of our available insurance coverage and established

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reserves, or a requirement that we participate in a product recall, would have adverse effects (that could be material) on our business, results of operations and financial condition.

Trends, Risks and Uncertainties Relating To Our Indebtedness

Our substantial debt could impair our financial condition and adversely affect our ability to operate our business.

We are highly leveraged and have substantial debt service obligations. As of December 31, 2003, we had total long-term indebtedness of \$1,302.9 million (including current maturities, but excluding unused commitments) and interest expense of \$151.1 million for the year ended December 31, 2003. Also, we may incur additional debt in the future, subject to certain limitations contained in our debt instruments.

The degree to which we are leveraged could have important consequences to you, including:

- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired;
- a significant portion of our cash flow from operations must be dedicated to the payment of interest and principal on our debt, which reduces the funds available to us for our operations;
- some of our debt is and will continue to be at variable rates of interest, which may result in higher interest expense in the event of increases in market interest rates;
- our debt agreements contain, and any agreements to refinance our debt likely will contain, financial and restrictive covenants, and our failure to comply with them may result in an event of default which, if not cured or waived, could have a material adverse effect on us;
- our level of indebtedness will increase our vulnerability to general economic downturns and adverse industry conditions;
- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and the semiconductor industry; and
- our substantial leverage could place us at a competitive disadvantage vis-à-vis our competitors who have less leverage relative to their overall capital structures.

We may incur more debt, which could exacerbate the risks described above.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The agreements relating to our outstanding indebtedness restrict us from incurring additional indebtedness, but do not fully prohibit us or our subsidiaries from doing so. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify. Some of the debt we may incur may be secured by the same collateral securing certain of our existing indebtedness.

The agreements relating to our indebtedness may restrict our current and future operations, particularly our ability to respond to changes or to take some actions.

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;

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- 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 Semiconductor Components Industries, 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 EBITDA and a minimum amount of cash and cash equivalents. Any future debt could contain financial and other covenants more restrictive than those that are currently applicable.

Our failure to comply with the agreements relating to our outstanding indebtedness, including as a result of events beyond our control, could result in an event of default that could materially and adversely affect our operating results and our financial condition.

If there were an event of default under any of the agreements relating to our outstanding indebtedness the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. We cannot assure you that our assets or cash flow would be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or if accelerated upon an event of default or, if we were required to repurchase any of our debt securities upon a change of control, that we would be able to refinance or restructure the payments on those debt securities. Further, if we are unable to repay, refinance or restructure our indebtedness under our secured debt, the holders of such debt could proceed against the collateral securing that indebtedness. In addition, any event of default or declaration of acceleration under one debt instrument could also result in an event of default under one or more of our other debt instruments, including the notes.

We may not be able to generate sufficient cash flow to meet our debt service obligations.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. If we do not generate sufficient cash flow from operations and proceeds from sales of assets in the ordinary course of business to satisfy our debt obligations, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling additional assets, reducing or delaying capital investments or seeking to raise additional capital. The terms of our financing agreements contain limitations on our ability to incur additional indebtedness. As of March 1, 2004, we have \$12.3 million of borrowing capacity available under our revolving credit facility. As of 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 is less than \$2.5 million. We cannot assure you that any refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, or that additional financing could be obtained on acceptable terms, if at all, or would be permitted under the terms of our various debt instruments then in effect. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations, as well as on our ability to satisfy our debt obligations.

Trends, Risks and Uncertainties Related to Our Common Stock

Fluctuations in our quarterly operating results may cause our stock price to decline.

Given the nature of the markets in which we participate, we cannot reliably predict future revenues and profitability, and unexpected changes may cause us to adjust our operations. A large portion of our costs are fixed, due in part to our significant sales, research and development and manufacturing costs. Thus, small declines in revenues could negatively affect our operating results in any given quarter. Factors that could affect our quarterly operating results include:

- the timing and size of orders from our customers, including cancellations and reschedulings;
- the timing of introduction of new products;
- the gain or loss of significant customers, including as a result of industry consolidation;
- seasonality in some of our target markets;
- changes in the mix of products we sell;
- changes in demand by the end-users of our customers' products;
- market acceptance of our current and future products;
- variability of our customers' product life cycles;
- changes in manufacturing yields or other factors affecting the cost of goods sold, such as the cost and availability of raw materials and the extent of utilization of manufacturing capacity;
- changes in the prices of our products, which can be affected by the level of our customers' and end-users' demand, technological change, product obsolescence, competition, or other factors;
- cancellations, changes or delays of deliveries to us by our third-party manufacturers, including as a result of the availability of manufacturing capacity and the proposed terms of manufacturing arrangements;
- our liquidity and access to capital; and
- our research and development activities and the funding thereof.

Holders of our common stock may experience dilution and the price of our common stock may decline as a result of the issuance of stock in the future.

In September 2001, we sold 10,000 shares of our Series A Cumulative Convertible Redeemable Preferred Stock to TPG ON Holdings LLC, an affiliate of the Texas Pacific Group. Each share of preferred stock is convertible at the option of the holder into approximately 3,546 shares of our common stock as of the issue date, excluding shares into which the preferred stock is convertible due to accumulated and unpaid dividends and subject to customary anti-dilution adjustments. Under the anti-dilution provisions, the conversion price is subject to downward adjustment in the event we issue common stock, or derivative securities entitling the holder to subscribe for or acquire common stock, at a price below the then-current conversion price or market price. Holders of preferred stock are entitled to cumulative dividends, payable quarterly in cash, at a rate of 8% per annum (or if greater during the relevant quarterly period, in an amount equal to the value of the dividends that would be paid on our common stock then issuable upon conversion of the preferred stock), subject to applicable restrictions imposed by our principal credit facility. In the event dividends are not paid, the dividends will accumulate on a compounded basis and the number of shares of common stock into which the preferred stock is convertible will increase proportionately.

There is a possibility that the preferred stock will be converted at a price per share that is less than the then current market price of our common stock. If this were to occur, it may cause substantial dilution to our existing common stockholders. Additionally, we registered the shares of common stock issuable upon conversion of the

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preferred stock under the Securities Act for public resale. Therefore, in the event that the preferred stock is converted, a substantial number of shares of our common stock may be sold into the market, which could decrease the trading price of our common stock and encourage short sales by the selling shareholder or others. Short sales could place further downward pressure on the price of our common stock. In addition to the preferred stock, we may issue more stock in the future, which may cause dilution and a decline in the price of our common stock.

Our stock price may be volatile, which could result in substantial losses for investors in our securities.

The stock markets in general, and the markets for high technology stocks in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

The market price of the common stock may also fluctuate significantly in response to the following factors, some of which are beyond our control:

- variations in our quarterly operating results;
- changes in securities analysts' estimates of our financial performance;
- changes in market valuations of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures, capital commitments, new products or product enhancements;
- loss of a major customer or failure to complete significant transactions; and
- additions or departures of key personnel.

As of March 1, 2004, the trading price of our common stock since our initial public offering has ranged from a high of \$27.75 on May 1, 2000 to a low of \$0.89 on October 4, 2002.

TPG, as our principal stockholder, controls our company, which will limit the ability of our other stockholders to influence the outcome of director elections and other matters submitted for a vote of the stockholders.

Affiliates of Texas Pacific Group own 111,858,369 shares of our common stock and 10,000 shares of Series A Cumulative Convertible Redeemable Preferred Stock. As of March 1, 2004, these shares represented over 51% of the total voting power of our capital stock. As a result, Texas Pacific Group, through its affiliates, will be able to:

- elect all of our directors and, as a result, control matters requiring board approval;
- control matters submitted to a stockholder vote, including mergers and consolidations with third parties and the sale of all or substantially all of our assets; and
- otherwise control or influence our business direction and policies.

In addition, our certificate of incorporation provides that the provisions of Section 203 of the Delaware General Corporation Law, which relate to business combinations with interested stockholders, do not apply to us.

Provisions in our charter documents may delay or prevent the acquisition of our company, which could decrease the value of our stock.

Our certificate of incorporation and bylaws contain provisions that could make it harder for a third party to acquire us without the consent of our board of directors. These provisions:

- create a board of directors with staggered terms;
- permit only our board of directors or the chairman on our board of directors to call special meetings of stockholders;

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- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting;
- prohibit stockholder action by written consent;
- authorize the issuance of “blank check” preferred stock, which is preferred stock with voting or other rights or preferences that could impede a takeover attempt and that our board of directors can create and issue without prior stockholder approval; and
- require the approval by holders of at least 66 2/3% of our outstanding common stock to amend any of these provisions in our certificate of incorporation or bylaws.

Although we believe these provisions make a higher third-party bid more likely by requiring potential acquirors to negotiate with our board of directors, these provisions apply even if an initial offer may be considered beneficial by some stockholders.

Item 7A. 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 December 31, 2003, our long-term debt (including current maturities) totaled \$1,302.9 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled \$914.8 million. We do have interest rate exposure with respect to the \$388.1 million outstanding balance on our variable interest rate debt; however, from time to time, we have entered into interest rate swaps and an interest rate cap to reduce this exposure. As of December 31, 2003, we had an interest rate swap covering \$100 million of our variable interest rate debt. A 50 basis point increase in interest rates would not materially change our expected annual interest expense for the next twelve months.

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 8. Financial Statements and Supplementary Data

Our consolidated and combined Financial Statements of the Company listed in the index appearing under Item 15(a)(1) hereof and the Financial Statement Schedules listed in the index appearing under Item 15(a)(2) hereof are filed as part of this Annual Report on Form 10-K and are hereby incorporated by reference in this Item 8.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, the 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 in ensuring that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, 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.

PART III**Item 10. Directors and Executive Officers of the Registrant**

Information concerning directors and persons nominated to become directors, and executive officers is incorporated by reference from the text under the captions, "Management Proposals — Proposal 1 — Election of Directors," "The Board of Directors", and "Section 16(a) Reporting Compliance" in our Proxy Statement for the May 19, 2004 Annual Meeting of Stockholders. Certain additional information concerning our executive officers as of March 8, 2004 is set forth below.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Keith D. Jackson	48	President and Chief Executive Officer*
William Bradford	40	Senior Vice President, Sales and Marketing*
Donald Colvin	51	Senior Vice President, Chief Financial Officer and Treasurer**
William George	61	Senior Vice President, Operations*
George H. Cave	46	Senior Vice President, Secretary and General Counsel*
Charlotte Diener	50	Vice President and General Manager, Standard Components Division**
Mike Heitzman	43	Vice President and General Manager, Analog and Power Management Products Division**
Ramesh Ramchandani	39	Vice President and General Manager, Integrated Power Devices Division**

* Executive Officers of both ON Semiconductor and Semiconductor Components Industries, LLC ("SCI, LLC").

** Executive Officers of SCI, LLC.

Keith D. Jackson. Mr. Jackson was appointed our President and Chief Executive Officer and became a Director on November 19, 2002. Mr. Jackson has over 20 years of semiconductor industry experience. Before joining our company, he served as Executive Vice President and General Manager, Analog, Mixed Signal, and Configurable Products Group, beginning in 1998, and more recently, was selected to head the Integrated Circuits Group for Fairchild Semiconductor Corp. From 1996 to 1998, he served as President and member of the Board of Directors of Tritech Microelectronics in Singapore, a manufacturer of analog and mixed signal products. From 1986 to 1996, Mr. Jackson worked for National Semiconductor, most recently as Vice President and General Manager of the Analog and Mixed Signal division. He also held engineering positions at Texas Instruments, Incorporated from 1973 to 1986.

William Bradford. Mr. Bradford joined ON Semiconductor and SCI, LLC as Senior Vice President of Sales and Marketing, effective March 28, 2002. He came from Cypress Semiconductor Corporation, a provider of high-performance integrated circuits for network infrastructure and access equipment. At Cypress Mr. Bradford served as the Vice President — European Sales & Marketing from 2001, as Senior Director of North American Sales — East from 1997 to 2000, and as Southeast Area Sales Manager from 1995 to 1996. Mr. Bradford was a Technical Sales Representative for Texas Instruments, Semiconductor Group from 1986 to 1991.

Donald Colvin. Mr. Colvin joined ON Semiconductor and SCI, LLC as the Senior Financial Director on March 17, 2003. Effective April 2, 2003, he became the Senior Vice President, Chief Financial Officer and Treasurer. He came from Atmel Corporation, a manufacturer of advanced semiconductors, where he served as Vice President Finance and Chief Financial Officer, beginning in 1998. Mr. Colvin served as Chief Financial Officer of a subsidiary of Atmel from 1995-98. From 1985 to 1995, he held various positions with European Silicon Structures (ES2), most recently as Chief Financial Officer. He held various financial positions with Motorola Semiconductors Europe from 1977 to 1985. Mr. Colvin holds a B.A. in Economics and an M.B.A. from the University of Strathclyde, Scotland.

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William George. Dr. George has served as Senior Vice President of Operations since August 1999. He served as Corporate Vice President and Director of Manufacturing of Motorola's Semiconductor Components Group from June 1997 until he assumed his current position. Prior to that time, Dr. George held several executive and management positions at Motorola, including Corporate Vice President and Director of Manufacturing of Motorola's Semiconductor Products Sector. In October 2003, Dr. George was elected as a Director of the Supervisory Board of Metron Technology N.V., a global provider of marketing, sales, manufacturing, service and support solutions to semiconductor materials and equipment suppliers and semiconductor manufacturers in Europe, Asia and the United States. From 1991 to 1994, he served as Executive Vice President and Chief Operations Officer of Sematech, a consortium of leading semiconductor companies. He joined Motorola in 1968.

George H.Cave. Mr. Cave has served as our General Counsel and Assistant Secretary since August 1999. He was elected Secretary in March 2000 and Vice President in May 2000. In April 2003, Mr. Cave became a Senior Vice President. Before his tenure with ON Semiconductor, he served for two years as the Regulatory Affairs Director for Motorola's Semiconductor Components Group in Geneva, Switzerland. Prior to that position, Mr. Cave was Senior Counsel in the Corporate Law Department of Motorola in Phoenix, Arizona for a period of five years.

Charlotte Diener. Prior to assuming the position of Vice President and General Manager of the Standard Components Division in December 2001, Ms. Diener served as Vice President and Director of Supply Chain Management Services for SCI, LLC, beginning in August 1999. From March 1999 to August 1999, Ms. Diener was Program Manager for ON Semiconductor's separation from Motorola. From December 1998 through February 1999, she was Director of Commodity Purchasing for TRW, Inc., an automotive electronics firm. From March 1997 through November 1998, Ms. Diener was first Corporate Sales Director and then Product Engineering Manager for TMOS for Motorola. From 1994 to 1997, Ms. Diener was Core Commodity Purchasing Manager, Electronics for Ford Motor Co.

Mike Heitzman. Mr. Heitzman assumed the position of Vice President and General Manager of Analog Products Division for SCI, LLC in April 2002. Prior to this, he was General Manager of Analog Division beginning in December 2001. From October 2000 to December 2001, Mr. Heitzman served as Director of the Standard Analog and Power Conversion Product Operations for SCI, LLC beginning in October 2000. During 1999 and 2000, Mr. Heitzman was Operations Manager for the MOS 12 wafer fabrication facility at Motorola. From 1994 to 1999, Mr. Heitzman managed the start-up and production ramp at MOS 12 as Engineering Manager at Motorola.

Ramesh Ramchandani. Mr. Ramchandani assumed the position of Vice President and General Manager of Integrated Power Devices Division for SCI, LLC in April 2002. Prior to this, Mr. Ramchandani was General Manager from December 2001 to April 2002 and Director from September 2000 to December 2001 of MOS Power Business Unit. Prior to joining SCI, LLC, Mr. Ramchandani served as Director of Worldwide Sales/Marketing and Applications for Celeritek, Inc., a commodity supplier of semiconductor products, from March 1997 to September 2000. From March 1996 to March 1997, Mr. Ramchandani was Manager, Marketing and Technology for Mitsubishi/QCI, a semiconductor company. Mr. Ramchandani has held various management positions in marketing and engineering with other semiconductor and modular components companies, including Fujitsu Microelectronics, Mitsubishi Electronics America and Avantek.

The present term of office for the officers named above will generally expire on the earliest of their retirement, resignation or removal. There is no family relationship among any such officers.

Code of Business Conduct

Information concerning our Code of Business Conduct is incorporated by reference from the text under the caption "Miscellaneous Information — Code of Business Conduct" in the Proxy Statement for our May 19, 2004 Annual Meeting of Stockholders.

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Item 11. Executive Compensation

Information concerning executive compensation is incorporated by reference from the text under the captions, “The Board of Directors — Compensation of Directors,” “Compensation of Executive Officers,” “Compensation Committee Report,” “Performance Graph — Stock Price Performance,” and “Compensation Committee Interlocks and Insider Participation” in our Proxy Statement for the May 19, 2004 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth equity compensation information as of December 31, 2003.

<u>Plan Category</u>	<u>Number of Securities To be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</u>
	(a)	(b)	(c)
Equity Compensation Plans Approved By Stockholders(1)	23,441,409(2)	\$ 4.11	11,918,335(3)
Equity Compensation Plans Not Approved By Stockholders	0	\$ 0.00	0
Total	23,441,409	\$ 4.11	11,918,335

- (1) Consists of the Founders Plan, the SIP and the 2000 Employee Stock Purchase Plan (“ESPP”).
- (2) Excludes purchase rights accruing under the ESPP that have a shareholder approved reserve of 5,500,000 shares. Under the ESPP, each eligible employee may purchase up to the lesser of (a) 500 shares of common stock or (b) the number derived by dividing \$6,250 by 100% of the fair market value of one share of common stock on the first day of the offering period, as defined in the ESPP, during each three-month period at a purchase price equal to 85% of the lesser of the fair market value of a share of stock on the first day of the period or the fair market value of a share of stock on the last day of the period.
- (3) Includes 1,543,766 shares of common stock reserved for future issuance under the ESPP and 10,374,569 shares of common stock available for issuance under the Founders Plan and the SIP. The number of securities remaining available for future issuance under these equity compensation plans increased by 4,345,998, effective January 1, 2004. This increase is not included in this table. The increase in securities remaining available for future issuance was calculated based on 2.0% of our total number of outstanding shares of common stock as of January 1, 2004.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions involving us and certain others is incorporated by reference from the text under the captions, “Compensation of Executive Officers” and “Relationships and Related Transactions” in the Proxy Statement for our May 19, 2004 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

Information concerning principal accounting fees and services is incorporated by reference from the text under the caption “Audit and Related Fees” in the Proxy Statement for our May 19, 2004 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Consolidated Financial Statements:

ON Semiconductor Corporation and Subsidiaries Consolidated Financial Statements:

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Report of Management	79
Report of Independent Auditors	80
Consolidated Balance Sheet as of December 31, 2003 and December 31, 2002	81
Consolidated Statement of Operations for the years ended December 31, 2003, 2002 and 2001	82
Consolidated Statement of Stockholders' Equity (Deficit) for the years ended December 31, 2003, 2002 and 2001	83
Consolidated Statement of Cash Flows for the years ended December 31, 2003, 2002 and 2001	84
Notes to Consolidated Financial Statements	85

(2) Consolidated Financial Statement Schedules:

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Report of Independent Auditors on Financial Statement Schedule	135
Schedule II — Valuation and Qualifying Accounts and Reserves	136
Semiconductor Components Industries, LLC and Subsidiaries Consolidated Financial Statements as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001	137
ON Semiconductor Trading Ltd and Subsidiaries Consolidated Financial Statements as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001	182
SCG Malaysia Holdings Sdn. Bhd. and Subsidiaries Consolidated Financial Statements as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001	207
SCG Philippines, Incorporated Financial Statements as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001	224
SCG (China) Holding Corporation and Subsidiaries Consolidated Financial Statements as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001	242

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or related notes.

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(3) Exhibit Index:

<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.1	Reorganization Agreement, dated as of May 11, 1999, among Motorola, Inc., SCG Holding Corporation and Semiconductor Components Industries LLC. (incorporated by reference from Exhibit 2.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
2.2	Agreement and Plan of Recapitalization and Merger, as amended, dated as of May 11, 1999, among SCG Holding Corporation, Semiconductor Components Industries, LLC, Motorola, Inc., TPG Semiconductor Holdings LLC, and TPG Semiconductor Acquisition Corp. (incorporated by reference from Exhibit 2.2 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
2.3	Amendment No. 1 to Agreement and Plan of Recapitalization and Merger, dated as of July 28, 1999, among SCG Holding Corporation, Semiconductor Components Industries, LLC, Motorola, Inc., TPG Semiconductor Holdings LLC, and TPG Semiconductor Acquisition Corp. (incorporated by reference from Exhibit 2.3 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
3.1(a)	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation as of August 1, 2002 (incorporated by reference from Exhibit 3.1(a) of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
3.1(b)	Certificate Designations relating to the Series A Cumulative Convertible Preferred Stock (incorporated by reference from Exhibit 3.1(b) of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
3.2	Amended and Restated Bylaws of ON Semiconductor Corporation(1)
4.1	Specimen of share certificate of Common Stock, par value \$.01, ON Semiconductor Corporation(1)
4.2	Certificate of Designations relating to the Series A Cumulative Convertible Preferred Stock (incorporated by reference from Exhibit 3.1 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.3	Specimen of Share Certificate of Series A Cumulative Convertible Preferred Stock (incorporated by reference from Exhibit 4.1 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.4	Purchase Agreement, dated as of August 4, 1999, SCG Holding Corporation, Semiconductor Components Industries, LLC, Chase Securities Inc., Donaldson, Lufkin & Jenrette Securities Corporation, Lehman Brothers Inc. (incorporated by reference from Exhibit 10.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.5	Investment Agreement, dated as of September 7, 2001, between TPG ON Holdings LLC and ON Semiconductor Corporation (incorporated by reference from Exhibit 4.2 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.6	Registration Rights Agreement, dated as of September 7, 2001, between TPG ON Holdings LLC and ON Semiconductor Corporation (incorporated by reference from Exhibit 4.3 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.7	Subordination Agreement, dated as of September 7, 2001, by and between TPG ON Holdings LLC and ON Semiconductor Corporation, for the benefit of Senior Creditors (incorporated by reference from Exhibit 4.4 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.8	Warrant Agreement dated as of October 11, 2001, between ON Semiconductor Corporation and Bain & Company, Inc. (incorporated by reference from Exhibit 4.7 to the Corporation's Form 10-K filed with the Commission on March 29, 2002)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
4.9	Indenture, dated as of August 4, 1999 among SCG Holding Corporation, Semiconductor Components Industries, LLC, the Note Guarantors named therein and State Street Bank and Trust Company, as trustee, relating to the 12% Senior Subordinated Notes due 2009 (incorporated by reference from Exhibit 4.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.10	Form of 12% Senior Subordinated Note due 2009 of SCG Holding Corporation and Semiconductor Components Industries, LLC (“Initial Note”) (included as Exhibit A to the Indenture filed as Exhibit 4.8 herein & incorporated by reference from Exhibit 4.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.11	Form of 12% Senior Subordinated Note due 2009 of SCG Holding Corporation and Semiconductor Components Industries, LLC (“Exchange Note”) (included as Exhibit B to the Indenture filed as Exhibit 4.8 herein & incorporated by reference from Exhibit 4.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.12	Exchange Offer and Registration Rights Agreement, dated August 4, 1999, Semiconductor Components Industries, LLC, SCG Holding Corporation, the subsidiary guarantors of SCG Holding Corporation (incorporated by reference from Exhibit 4.5 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.13	Purchase Agreement, dated May 1, 2002, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, Credit Suisse First Boston Corporation, Morgan Stanley & Co., Incorporated, J.P. Morgan Securities Inc., and Salomon Smith Barney Inc., relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 4.1 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
4.14	Indenture, dated as of May 6, 2002, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., SCG International Development LLC, Semiconductor Components Industries of Rhode Island, Inc., and Semiconductor Components Industries International of Rhode Island, Inc., and Wells Fargo Bank Minnesota, National Association, as trustee, relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 4.2 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
4.15	Form of 12% Senior Secured Note due 2008 of ON Semiconductor Corporation and Semiconductor Components Industries, LLC (“Initial Note”) (included as Exhibit A and Appendix A to the Indenture filed as Exhibit 4.2) (incorporated by reference from Exhibit 4.3 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
4.16	Form of 12% Senior Secured Note due 2008 of ON Semiconductor Corporation and Semiconductor Components Industries, LLC (“Exchange Note”) (included as Exhibit B and Appendix A to the Indenture filed as Exhibit 4.2) (incorporated by reference from Exhibit 4.4 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
4.17	Registration Rights Agreement, dated May 6, 2002, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., SCG International Development LLC, Semiconductor Components Industries of Rhode Island, Inc., and Semiconductor Components Industries International of Rhode Island, Inc., Credit Suisse First Boston Corporation, Morgan Stanley & Co., Incorporated, J.P. Morgan Securities Inc., and Salomon Smith Barney Inc., relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 4.5 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
4.18	Purchase Agreement, dated February 26, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, Salomon Smith Barney Inc., Credit Suisse First Boston LLC, J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 4.17 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
4.19	Indenture, dated as of March 3, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., SCG International Development LLC, Semiconductor Components Industries of Rhode Island, Inc., and Semiconductor Components Industries International of Rhode Island, Inc., and Wells Fargo Bank Minnesota, National Association, as trustee, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 4.18 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
4.20	Form of 12% Senior Secured Note due 2010 of ON Semiconductor Corporation and Semiconductor Components Industries, LLC (“Initial Note”) (included as Exhibit A and Appendix A to the Indenture filed as Exhibit 4.18 hereto) (incorporated by reference from Exhibit 4.19 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
4.21	Form of 12% Senior Secured Note due 2010 of ON Semiconductor Corporation and Semiconductor Components Industries, LLC (“Exchange Note”) (included as Exhibit B and Appendix A to the Indenture filed as Exhibit 4.18 hereto) (incorporated by reference from Exhibit 4.20 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
4.22	Registration Rights Agreement, dated March 3, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., SCG International Development LLC, Semiconductor Components Industries of Rhode Island, Inc., and Semiconductor Components Industries International of Rhode Island, Inc., Salomon Smith Barney Inc., Credit Suisse First Boston LLC, J.P. Morgan Securities Inc., and Morgan Stanley & Co. Incorporated, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 4.21 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.1	Guarantee Agreement, dated as of August 4, 1999, among SCG Holding Corporation, the subsidiary guarantors of SCG Holding Corporation that are signatories thereto, and The Chase Manhattan Bank, as collateral agent (incorporated by reference from Exhibit 10.3 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.2	Stock Purchase Agreement dated March 8, 2000 among Semiconductor Components Industries, LLC, SCG Holding Corporation and The Cherry Corporation (incorporated by reference from Exhibit 10.3 to Registration Statement No. 333-30670 filed with the Commission on April 7, 2000)
10.3	Amended and Restated Intellectual Property Agreement, dated August 4, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.5 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000)††
10.4	Transition Services Agreement, dated August 4, 1999, among Motorola, Inc., SCG Holding Corporation, and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.6 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.5	Employee Matters Agreements, as amended, dated July 30, 1999, among Semiconductor Components Industries, LLC, SCG Holding Corporation and Motorola, Inc. (incorporated by reference from Exhibit 10.7 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.6	Motorola Assembly Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.8 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.7	SCG Assembly Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.9 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.8	Motorola Foundry Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.10 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.9	SCG Foundry Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.11 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.10	Equipment Lease and Repurchase Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.12 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.11	Equipment Passdown Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.13 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.12	SCG Holding Corporation 1999 Founders Stock Option Plan (incorporated by reference from Exhibit 10.14 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.13(a)	Lease for 52nd Street property, dated July 31, 1999, among Semiconductor Components Industries, LLC as Lessor, and Motorola Inc. as Lessee (incorporated by reference from Exhibit 10.16 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.13(b)	First Lease Amendment to Lease for 52nd Street property, dated April 19, 2000, between Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.14(b) to the Corporation's Form 10-K filed with the Commission on March 29, 2002)
10.14	Lease for U.S. Locations (Mesa, Chandler, 56th Street and Tempe), dated July 31, 1999, among Motorola, Inc. as Lessor, and Semiconductor Components Industries, LLC as Lessee (incorporated by reference from Exhibit 10.15 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.15	Declaration of Reciprocal Covenants, Easement of Restrictions and Options to Purchase and Lease, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.17 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.16(a)	Employment Agreement, dated as of October 27, 1999, between Semiconductor Components Industries, LLC and Steve Hanson (incorporated by reference from Exhibit 10.18 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999) (2)
10.16(b)	Amendment to Employment Agreement effective as of April 15, 2002, between ON Semiconductor Corporation and Semiconductor Components Industries, LLC and Steve Hanson (incorporated by reference from Exhibit 10.2 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.16(c)	Separation Agreement, made as of November 21, 2002, by and among Steven Hanson, ON Semiconductor Corporation and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.19(c) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.16(d)	Amendment to Separation Agreement, dated as of February 25, 2003, by and between Steven Hanson, ON Semiconductor Corporation and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.19(d) to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.17(a)	Employment Agreement, dated as of September 13, 1999, between Semiconductor Components Industries, LLC and Michael Rohleder (incorporated by reference from Exhibit 10.19 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999) (2)
10.17(b)	Termination Agreement made as of January 29, 2002, between Michael Rohleder and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.1(a) of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.18(a)	Employment Agreement, dated as of November 8, 1999, between Semiconductor Components Industries, LLC and James Thorburn (incorporated by reference from Exhibit 10.20 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999) (2)
10.18(b)	Amendment No. 1 to Employment Agreement for James Thorburn, dated as of July 20, 2000 (incorporated by reference from Exhibit 10.2 of Third Quarter 2000 Form 10-Q filed with the Commission on November 14, 2000)(2)
10.18(c)	Separation Letter Agreement dated February 28, 2001 (with attached General Release and Waiver dated March 10, 2001), between James Thorburn and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.2 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)(2)
10.19(a)	Employment Agreement, dated as of October 27, 1999, between Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.21 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999) (2)
10.19(b)	Amendment to Employment Agreement, dated as of October 1, 2001, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.20(b) to the Corporation's Form 10-K filed with the Commission on March 29, 2002)(2)
10.19(c)	Amendment to Employment Agreement, dated as of August 5, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.1 of Third Quarter 2003 Form 10-Q filed with the Commission on November 7, 2003)(2)
10.20(a)	Employment Agreement, dated as of October 27, 1999, between Semiconductor Components Industries, LLC and Dario Sacomani (incorporated by reference from Exhibit 10.22 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999) (2)
10.20(b)	Amendment to Employment Agreement, dated as of November 28, 2001, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and Dario Sacomani (incorporated by reference from Exhibit 10.21(b) to the Corporation's Form 10-K filed with the Commission on March 29, 2002)(2)
10.20(c)	Termination Agreement made as of May 3, 2002, between Semiconductor Components Industries, LLC and Dario Sacomani (incorporated by reference from Exhibit 10.5 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.21(a)	Pledge and Security Agreement, dated as of November 8, 1999, between Semiconductor Components Industries, LLC and James Thorburn (incorporated by reference from Exhibit 10.23 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000) (2)
10.21(b)	Deed of Trust, dated as of July 20, 2000, with James Thorburn as Trustee and Semiconductor Components Industries, LLC as Beneficiary (incorporated by reference from Exhibit 10.3 of Third Quarter 2000 Form 10-Q filed with the Commission on November 14, 2000)(2)
10.22(a)	Promissory Note/ Security Interest, dated as of November 8, 1999, from James Thorburn to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.24 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999) (2)
10.22(b)	Promissory Note, dated July 21, 2000, from James Thorburn to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.2 of Third Quarter 2000 Form 10-Q filed with the Commission on November 14, 2000)(2)
10.22(c)	Amendment to Promissory Note, dated March 10, 2001, from James Thorburn and Jacqueline Thorburn to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.1 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)(2)
10.23(a)	ON Semiconductor Amended and Restated Executive Deferred Compensation Plan (incorporated by reference from Exhibit 10.31 to Registration Statement No. 333-30670 filed with the Commission on April 25, 2000)(2)
10.23(b)	First Amendment to the ON Semiconductor Corporation (fka SCG Holding Corporation) Executive Deferred Compensation Plan, as previously amended, dated September 19, 2000 (incorporated by reference from Exhibit 4.2 to Registration Statement No. 333-107895 filed with the Commission on August 12, 2003)(2)
10.23(c)	Second Amendment to the ON Semiconductor Amended and Restated Executive Deferred Compensation Plan effective January 1, 2002 (incorporated by reference from Exhibit 10.7 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.24	Junior Subordinated Note Due 2011(1)
10.25(a)	2000 Stock Incentive Plan amended and restated as of May 21, 2003 (incorporated by reference from Exhibit 10.1 of Second Quarter 2003 Form 10-Q filed with the Commission on August 13, 2003)(2)
10.25(b)	2000 Stock Incentive Plan — ON Ownership program grant agreement (incorporated by reference from Exhibit 10.33(b) to Registration Statement No. 333-30670 filed with the Commission on April 25, 2000)(2)
10.25(c)	2000 Stock Incentive Plan — incentive stock option agreement (incorporated by reference from Exhibit 10.35(c) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.25(d)	2000 Stock Incentive Plan — non-qualified stock option agreement (incorporated by reference from Exhibit 10.35(d) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.26	2000 Employee Stock Purchase Plan amended and restated as of May 23, 2001 (incorporated by reference from Exhibit 10.5 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)(2)
10.27	ON Semiconductor Director Deferred Compensation Plan (incorporated by reference from Exhibit 10.35 to Registration Statement No. 333-30670 filed with the Commission on April 25, 2000)(2)
10.28	Form of Master Trust Agreement for the ON Semiconductor Deferred Compensation Plans (incorporated by reference from Exhibit 10.36 to Registration Statement No. 333-30670 filed with the Commission on April 25, 2000)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.29	2000 ON Semiconductor Executive Council Bonus Incentive Plan (incorporated by reference from Exhibit 10.37 of Fourth Quarter 2000 Form 10-K filed with the Commission on March 30, 2001)(2)
10.30	2000 Key Contributor Incentive Plan (incorporated by reference from Exhibit 10.38 of Fourth Quarter 2000 Form 10-K filed with the Commission on March 30, 2001)(2)
10.31(a)	Promissory Note, dated March 9, 2001, from Michael Rohleder and Roxanne Rohleder to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.3 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)(2)
10.31(b)	Deed of Trust, dated March 7, 2001, from Michael Rohleder and Roxanne Rohleder to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.4 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)(2)
10.31(c)	Amendment to Promissory Note dated March 18, 2002, from Michael Rohleder and Roxanne Rohleder to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.1(b) of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.32(a)	Loan Facility Agreement, between Leshan-Phoenix Semiconductor Company Limited and Industrial & Commercial Bank of China, Leshan City Branch, for loan in an amount up to \$20 million, dated November 17, 2000 (incorporated by reference from Exhibit 10.1 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.32(b)	Letter for Loan Extension Application for a loan in an amount up to \$20 million, dated November 5, 2003, from Leshan-Phoenix Semiconductor Co. Ltd. to ICBC, Leshan City Branch(1)
10.32(c)	Loans Renewal Agreement between Leshan Phoenix Semiconductor Co. Ltd. and Industrial and Commercial Bank of China, Leshan City Branch for a loan in an amount up to \$20 million, dated March 5, 2004(1)
10.33(a)	Loan Agreement between SCG Japan Ltd. and Development Bank of Japan, for loan in an amount up to \$26.1 million, dated October 27, 2000 (incorporated by reference from Exhibit 10.2 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.33(b)	Guaranty Agreement, executed by Semiconductor Components Industries, LLC on October 27, 2000, in connection with Loan Agreement between SCG Japan Ltd. and Development Bank of Japan, for loan in an amount up to \$26.1 million (incorporated by reference from Exhibit 10.3 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.34(a)	Offer Letter dated February 15, 2002, from ON Semiconductor Corporation and Semiconductor Components Industries, LLC to John T. Kurtzweil (incorporated by reference from Exhibit 10.3 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.34(b)	Separation Agreement, dated as of March 31, 2003, by and among John Kurtzweil, ON Semiconductor Corporation and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.38(b) to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.35(a)	Employment Agreement effective as of March 28, 2002, between Semiconductor Components Industries, LLC and William Bradford (incorporated by reference from Exhibit 10.4 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.35(b)	Amendment No. 1 to Employment Agreement for William Bradford, executed on March 20, 2003, by and between Semiconductor Components Industries, LLC and William Bradford (incorporated by reference from Exhibit 10.39(b) to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.36	Offer Letter effective as of April 1, 2002, to Syrus Madavi from ON Semiconductor Corporation (incorporated by reference from Exhibit 10.6 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.37	Employee Incentive Plan, January 2002 (incorporated by reference from Exhibit 10.8 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.38	ON Semiconductor 2002 Executive Incentive Plan (incorporated by reference from Exhibit 10.1 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)(2)
10.39	Employee Incentive Plan January 2002 (incorporated by reference from Exhibit 10.2 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)(2)
10.40	Intercreditor Agreement, dated as of May 6, 2002, among J.P. Morgan Chase Bank, as credit agent, Wells Fargo Bank Minnesota, National Association, as trustee, ON Semiconductor Corporation and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.4 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.41	Security Agreement, dated as of May 6, 2002, among Semiconductor Components Industries, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and Wells Fargo Bank Minnesota, National Association, as trustee and collateral agent, relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 10.5 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.42	Pledge Agreement, dated as of May 6, 2002, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary pledgors of ON Semiconductor Corporation that are signatories thereto, and Wells Fargo Bank Minnesota, National Association, as trustee and collateral agent, relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 10.6 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.43	Collateral Assignment, dated as of May 6, 2002, between Semiconductor Components Industries, LLC and Wells Fargo Bank Minnesota, National Association, as trustee and collateral agent, relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 10.7 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.44	Joint Venture Contract for Leshan-Phoenix Semiconductor Company Limited, amended on June 25, 2002, among SCG (China) Holding Corporation, Leshan Radio Company Ltd, and Motorola (China) Investment Limited (incorporated by reference from Exhibit 10.8 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.45(a)	Employment Agreement, dated as of November 10, 2002, between ON Semiconductor Corporation and Keith Jackson (incorporated by reference from Exhibit 10.50(a) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.45(b)	Letter Agreement dated as of November 19, 2002, between ON Semiconductor Corporation and Keith Jackson (incorporated by reference from Exhibit 10.50(b) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.46	Collateral Sharing Agreement dated as of March 3, 2003, among JPMorgan Chase Bank, as Collateral Agent, Wells Fargo Bank Minnesota, National Association, as Trustee, ON Semiconductor Corporation and Semiconductor Components Industries, LLC, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 10.53 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.47	Security Agreement dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and JPMorgan Chase Bank, as collateral agent for the Secured Parties, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 10.54 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.48	Pledge Agreement, dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and JPMorgan Chase Bank, as collateral agent for the Secured Parties, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 10.55 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.49	Collateral Assignment dated as of August 4, 1999, as amended and restated as of March 3, 2003, between Semiconductor Components Industries, LLC and JPMorgan Chase Bank, as collateral agent for the Secured Parties, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 10.56 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.50	Employment Offer Letter dated March 14, 2003, between Semiconductor Components Industries, LLC and Donald Colvin (incorporated by reference from Exhibit 10.57 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.51	Letter Agreement relating to the employment of Peter Zdebel, dated as of March 31, 2003, by and between Semiconductor Components Industries, LLC and Peter Zdebel (incorporated by reference from Exhibit 10.58 to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.52	Supplement No. 1, dated as of September 23, 2003, to the Security Agreement dated as of August 4, 1999 as amended and restated as of March 3, 2003, by and among Semiconductor Components Industries, LLC, the borrower, ON Semiconductor Corporation, and the subsidiary guarantors of ON Semiconductor that are signatories thereto, in favor of JPMorgan Chase Bank, as collateral agent for certain secured parties (incorporated by reference from Exhibit 10.5 of Third Quarter 2003 Form 10-Q filed with the Commission on November 7, 2003)
10.53	Amendment and Restatement Agreement, dated as of November 25, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, as borrower, and JPMorgan Chase Bank, as administrative agent, under the Credit Agreement dated as of August 4, 1999, as amended and restated as of February 14, 2003 (as amended, supplemented and modified and in effect on the date hereof), among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, as borrower, the lenders party thereto, and the administrative agent(1)
10.54	Amended and Restated Credit Agreement, dated as of August 4, 1999, as amended and restated as of November 25, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, as borrower, the lenders party hereto, and JPMorgan Chase Bank as administrative agent, collateral agent and syndication agent (Exhibit A to the Amendment and Restatement Agreement filed as Exhibit 10.64 hereto)(1)
10.55	Reaffirmation Agreement, dated as of November 25, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, the subsidiary guarantors of ON Semiconductor that are signatories thereto, and JPMorgan Chase Bank, as administrative agent, issuing bank and collateral agent for the benefit of the lenders(1)
10.56(a)	Loan Agreement executed on December 12, 2003, between China Construction Bank Sichuan Branch and Leshan-Phoenix Semiconductor Company LTD, for a loan in an amount up to \$48 million(1)
10.56(b)	Mortgage Agreement executed on December 12, 2003, between China Construction Bank, Sichuan Branch and Leshan-Phoenix Semiconductor Company Ltd. relating to the loan in an amount up to \$48 million(1)
10.56(c)	Confirmation for Extension of Tranche B Loan, in an amount up to \$24 million, dated as of January 3, 2004, from China Construction Bank, Sichuan Branch to Leshan-Phoenix Semiconductor Company Ltd.(1)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.57	Waiver and Amendment, dated as of January 16, 2004 to the Credit Agreement dated as of August 4, 1999, as amended and restated as of November 25, 2003 (as amended, supplemented or otherwise modified from time to time prior to the date hereof) among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, the Lenders party thereto, and JPMorgan Chase Bank, as administrative agent(1)
14	ON Semiconductor Corporation Code of Business Conduct(1)
18	Letter from PricewaterhouseCoopers LLP re Change in Accounting Principles (incorporated by reference from Exhibit 18 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)
21.1	List of Significant Subsidiaries(1)
23.1	Consent of PricewaterhouseCoopers LLP, independent accountants(1)
24.1	Powers of Attorney(1)
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(1)
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(1)
32	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)
99.1	Stockholders Agreement dated as of August 4, 1999 among SCG Holding Corporation, TPG Semiconductor Holdings, LLC and Motorola, Inc. (incorporated by reference from Exhibit 99.5 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)

(1) Filed herewith.

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

† Schedules or other attachments to these exhibits not filed herewith shall be furnished to the Commission upon request.

†† Portions of these exhibits have been omitted pursuant to a request for confidential treatment

(b) Reports on Form 8-K:

During the fourth quarter of 2003 we filed or furnished three reports on Form 8-K (1) dated October 29, 2003 and furnished on October 30, 2003, (2) dated November 25, 2003 and filed November 26, 2003, and (3) dated December 3, 2003 and filed December 4, 2003.

The October 30, 2003 report was furnished pursuant to Items 9 and 12, reported the announcement of our results for the quarter ended October 3, 2003, and included as an exhibit a news release dated October 29, 2003, titled "ON Semiconductor Reports Third Quarter 2003 Results." The discussion under Items 9 and 12 of this Form 8-K and the attached exhibit were furnished to, but not filed with, the Securities and Exchange Commission.

The November 26, 2003 report was filed pursuant to Items 5 and 7, reported our refinancing of approximately \$369 million of term loans under our senior bank facilities at an interest rate of LIBOR plus 325 basis points as compared to the previous rate of LIBOR plus 400 basis points, and included as an exhibit a news release dated November 26, 2003 titled "ON Semiconductor Refinances \$369 Million Credit Facilities."

The December 4, 2003 report was filed pursuant to Items 5 and 7, reported its decision to phase out manufacturing operations at its facility in East Greenwich, Rhode Island by the end of 2004, and an expected

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restructuring, asset impairment and other charge of \$15 to \$20 million in the fourth quarter of 2003 as a result of that decision, and included as an exhibit a news release dated December 3, 2003 titled "ON Semiconductor to Phase Out Manufacturing in East Greenwich."

(c) See Item 15(a)(3) above.

(d) See Item 15(a)(2) above.

REPORT OF MANAGEMENT

To the Stockholders of ON Semiconductor Corporation:

The consolidated financial statements of ON Semiconductor Corporation published in this Annual Report on Form 10-K were prepared by Company management, who is responsible for their integrity and objectivity. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles, applying certain estimates and judgments as required. The financial information elsewhere in this Annual Report on Form 10-K is consistent with the consolidated financial statements.

ON Semiconductor maintains a system of internal control adequate to provide reasonable assurance that its transactions are appropriately recorded and reported, its assets are protected and its established policies are followed. This system is enforced by written policies and procedures, effective internal audit and a qualified financial staff.

Our independent auditors, PricewaterhouseCoopers LLP, provide an objective independent review by audit of ON Semiconductor's consolidated financial statements and issuance of a report thereon. Their audit is conducted in accordance with generally accepted auditing standards.

The audit committee of the board of directors, comprised solely of outside directors, meets periodically and privately with the independent auditors, internal auditors and representatives from management to appraise the adequacy and effectiveness of the audit functions, control systems and quality of our financial accounting and reporting.

/s/ KEITH D. JACKSON
President and Chief Executive Officer
February 2, 2004

/s/ DONALD COLVIN
Senior Vice-President, Chief Financial Officer and Treasurer
February 2, 2004

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
of ON Semiconductor Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of ON Semiconductor Corporation and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 4 to the consolidated financial statements, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations effective January 1, 2003 and its method of accounting for goodwill and other intangible assets effective January 1, 2002.

As also described in Note 4 the Company has restated its consolidated financial statements to reflect the consolidation of its investment in Leshan-Phoenix Semiconductor Company Limited upon adoption of Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.

PricewaterhouseCoopers LLP

Phoenix, Arizona

February 2, 2004, except for the third paragraph
of Note 2 and the third paragraph of Note 11 for
which the date is March 4, 2004.

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

	December 31,	
	2003	2002
Assets		
Cash and cash equivalents	\$ 186.6	\$ 190.4
Receivables, net (including \$7.7 and \$4.7 due from Motorola)	136.1	115.4
Inventories, net	171.6	163.5
Other current assets	25.7	39.4
Deferred income taxes	2.7	6.4
Total current assets	522.7	515.1
Property, plant and equipment, net	499.1	585.3
Deferred income taxes	1.3	—
Goodwill	77.3	77.3
Intangible asset, net	—	26.7
Other assets	61.0	54.0
Total assets	\$ 1,161.4	\$ 1,258.4
Liabilities, Minority Interests, Redeemable Preferred Stock and Stockholders' Equity (Deficit)		
Accounts payable (including \$0.4 and \$0.1 payable to Motorola)	\$ 115.7	\$ 74.1
Accrued expenses (including \$0.7 and \$0.7 payable to Motorola)	89.9	100.6
Income taxes payable	1.7	1.9
Accrued interest	25.3	43.6
Deferred income on sales to distributors	66.2	70.8
Current portion of long-term debt	11.4	19.8
Total current liabilities	310.2	310.8
Long-term debt (including \$139.9 and \$126.9 payable to Motorola)	1,291.5	1,403.4
Other long-term liabilities	58.2	67.0
Deferred income taxes	—	2.2
Total liabilities	1,659.9	1,783.4
Commitments and contingencies (See Note 16)	—	—
Minority interests in consolidated subsidiaries	26.4	27.0
Series A cumulative, convertible, redeemable preferred stock (\$0.01 par value 100,000 shares authorized, 10,000 shares issued and outstanding; 8% annual dividend rate; redemption value — \$131.7 and \$110.9)	119.7	110.1
Common stock (\$0.01 par value, 500,000,000 shares authorized, 217,299,893 and 176,439,900 shares issued and outstanding)	2.2	1.8
Additional paid-in capital	891.3	737.4
Accumulated other comprehensive loss	(4.4)	(34.3)
Accumulated deficit	(1,533.7)	(1,367.0)
Total stockholders' equity (deficit)	(644.6)	(662.1)
Total liabilities, minority interests, redeemable preferred stock and stockholders' equity (deficit)	\$ 1,161.4	\$ 1,258.4

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31,		
	2003	2002	2001
Revenues (including \$77.9, \$88.3 and \$100.9 from Motorola)	\$ 1,069.1	\$ 1,093.7	\$ 1,223.2
Cost of sales	768.1	795.6	997.7
Gross profit	301.0	298.1	225.5
Operating expenses:			
Research and development	85.5	81.5	94.5
Selling and marketing	63.0	61.2	74.8
General and administrative	64.9	88.8	115.5
Amortization of goodwill and intangibles	5.9	11.9	22.6
Restructuring, asset impairments and other, net	61.2	27.7	150.4
Total operating expenses	280.5	271.1	457.8
Operating income (loss)	20.5	27.0	(232.3)
Other income (expenses):			
Interest expense	(151.1)	(152.5)	(143.6)
Interest income	2.0	2.4	4.0
Gain on sale of investment in joint venture	—	—	3.1
Loss on debt prepayment	(7.7)	(6.5)	—
Other income (expenses), net	(156.8)	(156.6)	(136.5)
Loss before income taxes, minority interests and cumulative effect of accounting change	(136.3)	(129.6)	(368.8)
Income tax provision	(7.7)	(9.5)	(345.8)
Minority interests	(1.2)	(2.8)	(0.4)
Loss before cumulative effect of accounting change	(145.2)	(141.9)	(715.0)
Cumulative effect of accounting change (net of income taxes of \$0 in 2003 and \$38.8 in 2001)	(21.5)	—	(116.4)
Net loss	(166.7)	(141.9)	(831.4)
Less: Accretion to redemption value of convertible redeemable preferred stock	(0.5)	—	—
Less: Accretion of beneficial conversion feature relating to convertible redeemable preferred stock	—	—	(13.1)
Less: Convertible redeemable preferred stock dividends	(9.2)	(8.5)	(2.4)
Net loss applicable to common stock	\$ (176.4)	\$ (150.4)	\$ (846.9)
Loss per common share:			
Basic:			
Net loss applicable to common stock before cumulative effect of accounting change	\$ (0.83)	\$ (0.86)	\$ (4.21)
Cumulative effect of accounting change	(0.11)	—	(0.67)
Net loss applicable to common stock	\$ (0.94)	\$ (0.86)	\$ (4.88)
Diluted:			
Net loss applicable to common stock before cumulative effect of accounting change	\$ (0.83)	\$ (0.86)	\$ (4.21)
Cumulative effect of accounting change	(0.11)	—	(0.67)
Net loss applicable to common stock	\$ (0.94)	\$ (0.86)	\$ (4.88)
Weighted average common shares outstanding:			
Basic	187.4	175.6	173.6
Diluted	187.4	175.6	173.6

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
(in millions, except per share data)

	Common Stock		Additional Paid- In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Number of Shares	At Par Value				
Balances at December 31, 2000	172,746,435	1.7	730.4	(0.7)	(393.7)	337.7
Stock option exercises	648,132	—	0.9	—	—	0.9
Tax benefit of stock option exercises	—	—	0.7	—	—	0.7
Stock compensation expense	—	—	5.0	—	—	5.0
Redeemable preferred stock dividends	—	—	(2.4)	—	—	(2.4)
Shares issued under the employee stock purchase plan	1,259,019	—	4.2	—	—	4.2
Beneficial conversion feature relating to convertible redeemable preferred stock	—	—	13.1	—	—	13.1
Accretion of beneficial conversion feature relating to convertible redeemable preferred stock	—	—	(13.1)	—	—	(13.1)
Comprehensive income (loss):						
Net loss	—	—	—	—	(831.4)	(831.4)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	(3.9)	—	(3.9)
Additional minimum pension liability	—	—	—	(13.5)	—	(13.5)
Cumulative effect of accounting change	—	—	—	(5.7)	—	(5.7)
Effects of cash flow hedges	—	—	—	(9.0)	—	(9.0)
Other comprehensive loss	—	—	—	(32.1)	—	(32.1)
Comprehensive loss	—	—	—	—	—	(863.5)
Balances at December 31, 2001	174,653,586	1.7	738.8	(32.8)	(1,225.1)	(517.4)
Stock option exercises	757,185	0.1	1.1	—	—	1.2
Tax benefit of stock option exercises	—	—	0.1	—	—	0.1
Stock compensation expense	—	—	4.5	—	—	4.5
Redeemable preferred stock dividends	—	—	(8.5)	—	—	(8.5)
Shares issued under the employee stock purchase plan	1,029,129	—	1.4	—	—	1.4
Comprehensive income (loss), net of tax:						
Net loss	—	—	—	—	(141.9)	(141.9)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	2.3	—	2.3
Additional minimum pension liability	—	—	—	(5.8)	—	(5.8)
Unrealized losses on deferred compensation plan investments	—	—	—	(0.6)	—	(0.6)
Effects of cash flow hedges	—	—	—	2.6	—	2.6
Other comprehensive loss	—	—	—	(1.5)	—	(1.5)
Comprehensive loss	—	—	—	—	—	(143.4)
Balances at December 31, 2002	176,439,900	1.8	737.4	(34.3)	(1,367.0)	(662.1)
Issuance of common stock, net of issuance costs	36,996,000	0.4	156.4	—	—	156.8
Stock option exercises	1,924,030	—	4.2	—	—	4.2
Tax benefit of stock option exercises	—	—	0.3	—	—	0.3
Stock compensation expense	—	—	0.1	—	—	0.1
Redeemable preferred stock dividends	—	—	(9.2)	—	—	(9.2)
Accretion to redemption value of convertible redeemable preferred stock	—	—	(0.5)	—	—	(0.5)
Shares issued under the employee stock purchase plan	689,963	—	1.2	—	—	1.2
Warrant exercises	1,250,000	—	1.4	—	—	1.4
Comprehensive income (loss), net of tax:						
Net loss	—	—	—	—	(166.7)	(166.7)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	—	—	—	3.7	—	3.7
Additional minimum pension liability adjustment	—	—	—	19.6	—	19.6
Unrealized losses on deferred compensation plan investments	—	—	—	(0.2)	—	(0.2)
Effects of cash flow hedges	—	—	—	6.8	—	6.8
Other comprehensive loss	—	—	—	29.9	—	29.9
Comprehensive loss	—	—	—	—	—	(136.8)
Balances at December 31, 2003	217,299,893	\$ 2.2	\$ 891.3	\$ (4.4)	\$ (1,533.7)	\$ (644.6)

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions, except per share data)

	Year Ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net loss	\$(166.7)	\$(141.9)	\$(831.4)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	127.8	148.0	177.1
Cumulative effect of accounting change	21.5	—	155.2
Loss on debt prepayment	7.7	6.5	—
Amortization of debt issuance costs and debt discount	8.7	8.1	6.0
Provision for excess inventories	13.0	16.0	50.9
Non-cash impairment of property, plant and equipment	30.7	12.4	56.2
Non-cash impairment of intangible and other assets	25.1	—	—
Non-cash interest on junior subordinated note payable to Motorola	13.0	11.7	10.7
Gain on sale of investment in joint venture	—	—	(3.1)
Deferred income taxes	0.3	7.1	317.1
Stock compensation expense	0.1	4.5	5.0
Other	0.6	3.0	1.2
Changes in assets and liabilities:			
Receivables	(20.8)	22.4	134.5
Inventories	(21.0)	6.4	23.0
Other assets	5.0	3.2	(4.2)
Accounts payable	41.3	(35.9)	(63.2)
Accrued expenses	(16.2)	(6.3)	(62.3)
Income taxes payable	(0.1)	(11.2)	(16.4)
Accrued interest	(18.3)	19.8	5.7
Deferred income on sales to distributors	(4.6)	(28.6)	(82.8)
Other long-term liabilities	(1.4)	1.2	4.4
Net cash provided by (used in) operating activities	45.7	46.4	(116.4)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(59.8)	(40.5)	(149.0)
Deposits for purchases of property, plant and equipment	(6.8)	—	—
Proceeds from sale of investment in joint venture	—	—	20.4
Proceeds from sales of property, plant and equipment	13.2	4.5	13.8
Other	(1.8)	—	(0.6)
Net cash used in investing activities	(55.2)	(36.0)	(115.4)
Cash flows from financing activities:			
Proceeds from debt issuance, net of discount	338.4	290.7	134.5
Proceeds from issuance of common stock under the employee stock purchase plan	1.2	1.4	4.2
Proceeds from exercise of stock options and warrants	5.6	1.2	0.9
Proceeds from issuance of convertible, redeemable preferred stock, net of issuance costs	—	—	99.2
Proceeds from issuance of common stock, net of issuance costs	157.2	—	—
Payment of capital lease obligation	(0.2)	(1.1)	(1.9)
Payment of debt issuance costs	(15.3)	(12.1)	(5.1)
Repayment of senior credit facilities	(482.5)	(287.1)	(5.6)
Net cash provided by (used in) financing activities	4.4	(7.0)	226.2
Effect of exchange rate changes on cash and cash equivalents	1.3	1.0	0.8
Net increase (decrease) in cash and cash equivalents	(3.8)	4.4	(4.8)
Cash and cash equivalents, beginning of period	190.4	186.0	190.8
Cash and cash equivalents, end of period	\$ 186.6	\$ 190.4	\$ 186.0

See accompanying notes to consolidated financial statements.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

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

On August 4, 1999, the Company was recapitalized and certain related transactions were effected pursuant to an agreement among ON Semiconductor Corporation, its principal domestic operating subsidiary, Semiconductor Components Industries, LLC ("SCI LLC"), Motorola and affiliates of Texas Pacific Group ("TPG"). Because TPG's affiliate did not acquire substantially all of the Company's common stock, the basis of the Company's assets and liabilities for financial reporting purposes was not impacted by the Recapitalization.

Note 2: Liquidity

During the year ended December 31, 2003, the Company incurred a net loss of \$166.7 million compared to net losses of \$141.9 million and \$831.4 million in 2002 and 2001, respectively. The Company's net results included restructuring, asset impairments and other, net of \$61.2 million, \$27.7 million and \$150.4 million in 2003, 2002 and 2001, respectively, as well as interest expense of \$151.1 million, \$152.5 million and \$143.6 million, respectively. The Company's operating activities provided cash of \$45.7 million in 2003 and \$46.4 million in 2002 and used cash of \$116.4 million in 2001.

At December 31, 2003, the Company had \$186.6 million in cash and cash equivalents, net working capital of \$212.5 million, term or revolving debt of \$1,302.9 million and a stockholders' deficit of \$644.6 million. The Company's long-term debt includes \$320.1 million under its senior bank facilities; \$191.6 million (net of discount) of its 13% senior secured notes due 2010; \$292.6 million (net of discount) of its 12% senior secured notes due 2008; \$260.0 million of its 12% senior subordinated notes due 2009; \$139.9 million under a 10% junior subordinated note payable to Motorola due 2011; \$48.0 million under a loan facility with a Chinese bank due 2013; \$24.3 million under a note payable to a Japanese bank due 2010; \$20.0 million under a loan facility with a Chinese bank due 2006; and \$6.4 million under a capital lease obligations. The Company was in compliance with all of the covenants contained in its various debt agreements at December 31, 2003 and expects to remain in compliance over the next twelve months.

In February 2004, the Company completed a public offering of common stock resulting in net proceeds of \$226.7 million. The net proceeds are expected to be used to redeem \$70.0 million principal amount of the Company's 13% senior secured notes due 2010 and \$105.0 million principal amount of the 12% senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes. The remaining proceeds will be used for general corporate purposes.

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

If the Company fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to the Company. Management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund the Company's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2004. To the extent that results or events differ from the Company's financial projections or business plans, its liquidity may be adversely impacted.

Note 3: 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 material 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, ("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. While consolidation of the Company's investment in Leshan did not impact the previously reported net income (loss) or stockholders' equity (deficit), financial information of prior periods has been revised for comparative purposes as allowed by FIN No. 46.

Reclassifications

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

Use of Estimates

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

Cash Equivalents

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

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

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price of over the estimated fair value of the net assets acquired in the Company's April 2000 acquisition of Cherry Semiconductor Corporation (Cherry). The Cherry goodwill was being amortized on a straight-line basis over its estimated useful life of ten years until January 1, 2002 when the Company adopted Statement of Financial Accounting Standards ("SFAS") 142, "Goodwill and Other Intangible Assets." The Company also acquired another intangible asset in the Cherry acquisition that were being amortized on a straight-line basis over their estimated useful lives. In the second quarter of 2003, that intangible asset was determined to be impaired and was written-off. See Note 5 "Restructuring, Asset Impairments and Other, net".

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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.

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 \$34.7 million and \$33.7 million at December 31, 2003 and 2002, 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 customer net of provisions for related sales returns and allowances.

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

Research and Development Costs

Research and development costs are expensed as incurred.

Stock-Based Compensation

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net loss for 2003, 2002, and 2001 would have been increased to the pro forma amounts indicated below (in millions except share data):

	Year ended December 31,		
	2003	2002	2001
Net loss, as reported	\$(166.7)	\$(141.9)	\$(831.4)
Add: Stock-based employee compensation expense included in report net loss, net of related tax effects	0.1	4.5	3.7
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(15.1)	(14.5)	(11.4)
Pro-forma net loss	(181.7)	(151.9)	(839.1)
Less: Accretion to redemption value of convertible redeemable preferred stock	(0.5)	—	—
Less: Accretion of beneficial conversion feature relating to convertible redeemable preferred stock	—	—	(13.1)
Less: Convertible redeemable preferred stock dividends	(9.2)	(8.5)	(2.4)
Pro-forma net loss applicable to common stock	\$(191.4)	\$(160.4)	\$(854.6)
Loss per share:			
Basic — as reported	\$ (0.94)	\$ (0.86)	\$ (4.88)
Basic — pro-forma	\$ (1.02)	\$ (0.91)	\$ (4.92)
Diluted — as reported	\$ (0.94)	\$ (0.86)	\$ (4.88)
Diluted — pro-forma	\$ (1.02)	\$ (0.91)	\$ (4.92)

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

Employee Stock Options	2003	2002	2001
Expected life (in years)	5	5	5
Risk-free interest rate	3.07 %	4.15 %	4.82 %
Volatility	0.78	0.70	0.70
Employee Stock Purchase Plan			
Expected life (in years)	0.25	0.25	0.25
Risk-free interest rate	1.07 %	1.71 %	4.26 %
Volatility	0.83	0.70	0.70

The weighted-average estimated fair value of employee stock options granted during 2003, 2002 and 2001 was \$1.50, \$1.91 and \$3.25 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during 2003, 2002 and 2001 was \$0.62, \$0.60 and \$1.24, respectively.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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.

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 that are receivable or payable in cash are translated at current exchange rates while inventories and other non-monetary assets are translated at historical rates. Gains and losses resulting from the translation of such financial statements are included in the operating results, as are gains and losses incurred on foreign currency transactions.

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

Defined Benefit Plans

The Company maintains pension plans covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increases for plan employees. All of these assumptions are based upon management's judgment, considering all known trends and uncertainties. As described in Note 4, "Accounting Changes," the Company changed its method of accounting for net unrecognized actuarial gains or losses relating to its defined benefit pension obligations effective January 1, 2003.

Convertible Redeemable Preferred Stock

The Company accounts for the difference between the carrying amount of its convertible redeemable preferred stock and the redemption value by increasing the carrying amount for periodic accretion so that the carrying amount equals the redemption value at the earliest available redemption date. The periodic accretion amount changes as the Company's stock price changes and as additional dividends accrue. Based on the average closing price of the Company's common stock over the last 30 trading days preceding December 31, 2003 of \$6.19 the accretion charge for the fourth quarter of 2003 was \$0.5 million.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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.

Recent Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not impact the Company's financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer that must be classified as liabilities and carried at liquidation value. Such freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase the issuer's equity shares by transferring assets, and certain obligations to issue a variable number of shares. Equity securities of consolidated entities that meet the definition of a mandatorily redeemable security by virtue of having a finite life ("mandatorily redeemable minority interests") are included in the scope of SFAS No. 150. The minority interest associated with the Company's investment in Leshan is a mandatorily redeemable minority interest within the scope of SFAS No. 150 by virtue of Leshan's finite life of 50 years as specified in its organizational documents. In November 2003, the FASB issued Staff Position No. 150-3 which deferred the measurement and classification provisions of SFAS No. 150 relating to Leshan pending further action by the FASB. The Company is required to disclose the liquidation value of the Leshan minority interest which the Company believes approximates the related carrying value of \$26.0 million at December 31, 2003. The Company's adoption of the other provisions of SFAS No. 150 in 2003 did not impact its financial condition or results of operations.

In December 2003, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits (revised 2003)," SFAS No. 132 revises employers' disclosures about pension plans and other postretirement benefit plans. It requires additional disclosures to those in the original SFAS No. 132 about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132 which also requires new disclosures for Interim periods beginning after December 15, 2003, is effective for fiscal years ending after December 15, 2003. The Company adopted this Statement for the year ended December 31, 2003 and has included the required disclosures in Note 13 "Employee Benefit Plans".

Note 4: Accounting Changes

Defined Benefit Plans

The Company changed its method of accounting for net unrecognized actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized such net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, the Company no longer defers actuarial gains or losses but recognizes such gains and losses during the

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred.

The impact of this change for periods prior to January 1, 2003 was a charge of \$21.5 million or \$0.11 per share, both before and after income taxes, and has been reflected as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations for the year ended December 31, 2003. The effect of the change in 2003 was to decrease the loss before cumulative effect of accounting change by \$5.5 million or \$0.03 per share, both before and after income taxes, and to increase the net loss by \$16.0 million or \$0.09 per share, both before and after income taxes. Absent the accounting change, the \$21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

The estimated pro forma effects of the accounting change on the Company's results of operations for the years ended December 31, 2002 and 2001 were as follows (in millions, except share data):

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

Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 prohibits the amortization of goodwill and indefinite-lived intangible assets and requires that such assets be tested for impairment on an annual basis or whenever events or circumstances indicate that the related carrying value may be impaired, requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill and removes the forty-year limitation on the amortization period of intangible assets that have finite lives.

The Company's goodwill at January 1, 2002 totaled \$77.3 million and related to the acquisition of Cherry in April 2000. As a result of the adoption of SFAS No. 142, the Company discontinued amortization of the Cherry goodwill at the beginning of 2002. The Company has no other indefinite-lived intangible assets.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

The following table, with comparable actual amounts for the year ended December 31, 2001, sets forth the pro forma effects on net loss and loss per share assuming that the Company had adopted the provisions of SFAS No. 142 as of January 1, 2001:

	<u>As reported 2001</u>	<u>Pro forma 2001</u>
Reported net loss before cumulative effect of accounting change	\$ (715.0)	\$ (715.0)
Add back: Goodwill amortization, net of tax		10.7
Pro forma net loss before cumulative effect of accounting change		<u>\$ (704.3)</u>
Reported net loss	\$ (831.4)	\$ (831.4)
Add back: Goodwill amortization, net of tax		10.7
Pro forma net loss		<u>\$ (820.7)</u>
Reported basic loss per share before cumulative effect of accounting change	\$ (4.21)	\$ (4.21)
Add back: Goodwill amortization, net of tax		0.06
Pro forma basic loss per share before cumulative effect of accounting change		<u>\$ (4.15)</u>
Reported basic loss per share	\$ (4.88)	\$ (4.88)
Add back: Goodwill amortization, net of tax		0.06
Pro forma basic loss per share		<u>\$ (4.82)</u>
Reported diluted loss per share before cumulative effect of accounting change	\$ (4.21)	\$ (4.21)
Add back: Goodwill amortization, net of tax		0.06
Pro forma diluted loss per share before cumulative effect of accounting change		<u>\$ (4.15)</u>
Reported diluted loss per share	\$ (4.88)	\$ (4.88)
Add back: Goodwill amortization, net of tax		0.06
Pro forma diluted loss per share		<u>\$ (4.82)</u>

Revenue Recognition

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

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

Derivatives Instruments and Hedging Activities

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

Upon the adoption, the Company recorded a charge of approximately \$5.7 million to accumulated other comprehensive income (loss). This charge consisted of an approximate \$2.2 million adjustment to record the Company's interest rate swaps in the consolidated balance sheet at their estimated fair values as well as the write-off of an approximate \$3.5 million deferred charge relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under the Company's senior bank facilities.

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

Variable Interest Entities

In the second quarter of 2003, the Company adopted FASB Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". 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 it is the primary beneficiary of this VIE; therefore, its investment in Leshan should be consolidated under FIN No. 46. The Company had previously accounted for our investment in Leshan using the equity method. While consolidation of the its investment in Leshan did not impact the Company's previously reported net income (loss) or stockholders' equity (deficit), financial information of prior periods has been revised for comparative purposes as allowed by FIN No. 46.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 5: Restructuring, Asset Impairments and Other, net

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

	Reserve Balance at December 31, 2002	2003 Charges	2003 Usage	2003 Adjustments	Reserve Balance at December 31, 2003
December 2003					
Cash employee separation charges	\$ —	\$ 5.2	—	—	\$ 5.2
Cash exit costs	—	0.4	—	—	0.4
Non-cash impairment of property, plant and equipment	—	20.2	(20.2)	—	—
Write-down of long-term receivable and investment	—	4.3	(4.3)	—	—
	<u>—</u>				<u>5.6</u>
September 2003					
Cash employee separation charges	—	1.4	(0.9)	—	0.5
June 2003					
Cash employee separation charges	—	0.4	(0.4)	—	—
Cash exit costs	—	1.4	(1.4)	—	—
Non-cash impairment of property, plant and equipment	—	10.5	(10.5)	—	—
Non-cash impairment of intangible asset	—	20.8	(20.8)	—	—
Write-down of investment	—	0.5	(0.5)	—	—
	<u>—</u>				<u>—</u>
December 2002					
Cash employee separation charges	9.9	—	(6.7)	(0.1)	3.1
Cash exit costs	1.8	—	(1.1)	—	0.7
	<u>11.7</u>				<u>3.8</u>
June 2002					
Cash employee separation charges	0.4	—	(0.4)	—	—
Cash exit costs	1.5	—	—	1.0	2.5
	<u>1.9</u>				<u>2.5</u>
March 2002					
Cash employee separation charges	3.0	—	(2.8)	0.1	0.3
December 2001					
Cash employee separation charges	0.1	—	—	(0.1)	—
June 2001					
Cash exit costs	2.8	—	(2.2)	(0.2)	0.4
	<u>\$ 19.5</u>	<u>\$ 65.1</u>	<u>\$ (72.2)</u>	<u>\$ 0.7</u>	<u>\$ 13.1</u>

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

	Reserve Balance at December 31, 2001	2002 Charges	2002 Usage	2002 Adjustments	Reserve Balance at December 31, 2002
December 2002					
Cash employee separations charges		10.1	(0.2)	—	9.9
Cash exit costs		1.8	—	—	1.8
Non-cash impairment of property, plant and equipment		1.0	(1.0)	—	—
	—				11.7
June 2002					
Cash employee separations charges	—	2.9	(2.5)	—	0.4
Cash exit costs	—	2.8	(1.3)	—	1.5
Non-cash impairment of property, plant and equipment	—	8.4	(8.4)	—	—
Non-cash stock compensation charges	—	1.0	(1.0)	—	—
	—				1.9
March 2002					
Cash employee separations charges	—	7.0	(4.3)	0.3	3.0
Non-cash stock compensation charges	—	0.2	(0.2)	—	—
	—				3.0
December 2001					
Cash employee separations charges	2.2	—	(2.1)	—	0.1
June 2001					
Cash employee separations charges	6.8	—	(5.7)	(1.1)	—
Cash exit costs	10.0	—	(8.1)	0.9	2.8
	16.8				2.8
March 2001					
Cash employee separations charges	0.8	—	(0.7)	(0.1)	—
	\$ 19.8	\$ 35.2	\$ (35.5)	\$ —	\$ 19.5

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

	Reserve Balance at December 31, 2000	2001 Charges	2001 Usage	Reserves released to income	Reserve Balance at December 31, 2001
	\$ 0.7	\$ —	\$ (0.7)	\$ —	\$ —
December 2001					
Cash employee separations charges	—	4.0	(1.8)	—	2.2
Non-cash impairment of property, plant and equipment	—	11.1	(11.1)	—	—
Non-cash stock compensation and pension charges	—	1.5	(1.5)	—	—
	—				2.2
June 2001					
Cash employee separations charges	—	36.4	(29.6)	—	6.8
Cash exit costs	—	10.0	—	—	10.0
Non-cash impairment of property, plant and equipment	—	42.2	(42.2)	—	—
Non-cash stock compensation and pension charges	—	7.2	(7.2)	—	—
	—				16.8
March 2001					
Cash employee separations charges	—	31.3	(30.5)	—	0.8
Non-cash impairment of property, plant and equipment	—	2.9	(2.9)	—	—
	—				0.8
	\$ 0.7	\$ 146.6	\$ (127.5)	\$ —	\$ 19.8

As of December 31, 2003, the reserve balance of \$13.1 million was comprised of employee severance charges of \$9.1 million and exit costs of \$4.0 million. A reconciliation of the activity in the tables above to the “Restructuring, asset impairments and other, net” caption on the statement of operations for the years ended December 31, 2003, 2002 and 2001, is as follows (in millions):

	2003
2003 Charges	\$ 65.1
Less: adjustments to prior year charges	0.7
Less: Gain on sale of Guadalajara facility*	(4.6)
	\$ 61.2
	2002
2002 Charges	\$ 35.2
Plus: Charges related to Guadalajara (June 2001) and France (March 2002)	1.9
Less: Reserves released during the period	(1.9)
Plus: Charges related to the termination of executive officers (December 2002)*	4.9
Less: Motorola settlement gain*	(12.4)
	\$ 27.7
	2001
2001 Charges	\$146.6
Plus: Charges related to the termination of an executive officer (March 2001)*	3.8
	\$150.4

* Not included in above tables

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

December 2003

In December 2003, the Company recorded \$30.1 million in restructuring, asset impairment and other, net charges. These charges included \$5.2 million to cover employee separation costs, \$0.4 million of lease and contract costs and \$20.2 million of asset impairments associated with the Company's restructuring programs, and \$4.3 million of other charges associated with the write-down of certain other assets. The Company also recorded a \$0.2 million reversal of amounts previously recorded in connection with the Company's June 2001 and December 2002 restructuring programs described below.

The employee separation costs of \$5.2 million reflect the phase-out of manufacturing operations at the Company's East Greenwich, Rhode Island facility, the shutdown of the Company's back-end manufacturing lines in Roznov, Czech Republic, and further reductions in general and administrative staffing levels in the United States and Western Europe. The employee separation charges for East Greenwich totaled \$3.8 million for approximately 325 employees. The Czech Republic employee separation charge of \$0.5 million represents a portion of the total severance charges for approximately 460 employees. Additional severance cost of approximately \$1.6 million related to the Czech Republic will be recognized ratably over 2004. The remaining \$0.9 million charge relates to severance benefits for approximately 10 employees in general and administrative functions in the United States and Europe. All terminations and associated severance payments related to this charge are expected to be completed by the second quarter of 2005.

The lease and contract termination costs of \$0.4 million reflect costs incurred in connection with the consolidation of sales, distribution and administrative facilities in North America.

The \$20.2 million of asset impairments include \$15.3 million associated with the East Greenwich, Rhode Island facility and \$4.9 million associated the closure of the back-end manufacturing lines in Roznov, Czech Republic. The planned discontinuation of manufacturing activities triggered an impairment analysis of the carrying value of the related assets and resulted in the Company recording asset impairment charges of \$15.3 million associated with the East Greenwich, Rhode Island facility and \$4.9 million associated with the back-end manufacturing lines in Roznov, Czech Republic. The Company measured the amount of each asset impairment by comparing the carrying values of the respective assets to their related estimated fair values. The Company estimated future net cash flows for the period of continuing manufacturing activities (December 2004 for East Greenwich and Roznov) for each group of assets using price, volume, cost and salvage value assumptions that management considered reasonable in the circumstances. The impairment charges were recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value.

The \$4.3 million of other charges consist of a \$2.3 million write-off of a long-term note receivable and a \$2.0 million write-down of a cost basis investment. The note receivable was created in connection with the sale of certain equipment in 2001 and was fully reserved during the fourth quarter of 2003 when the counterparty defaulted on the obligation. The Company continues to attempt to collect this note. The cost basis investment relates to a semiconductor start-up company that was written down in the fourth quarter of 2003 based on the Company's operating performance and liquidity concerns.

September 2003

In September 2003, the Company recorded a \$4.6 million gain in connection with the sale of its Guadalajara, Mexico facility. This gain was partially offset by charges totaling \$1.4 million associated with worldwide restructuring programs to cover employee separation costs relating to the termination of approximately 36 employees, reflecting further reductions in manufacturing and general and administrative personnel in France, Germany, the Czech Republic, Hong Kong and the United States. The Company also

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

recorded a \$0.2 million reversal of amounts previously recorded in connection with the Company's June 2001 and December 2001 restructuring programs as described below and an additional \$0.1 million charge associated with its March 2002 restructuring program.

All impacted employees have been terminated, and the Company currently expects to pay out the remaining employee severance costs by September 2004.

June 2003

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

The employee separation costs reflected further reductions in general and administrative staffing levels primarily in the United States. All impacted employees have been terminated, and the Company has made all severance payments.

The lease and contract termination exit costs relate to the exit of certain sales and administrative offices and the termination of other purchase and supply agreements. All associated exit costs have been paid.

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

The Company also recorded non-cash impairment charges totaling \$21.3 million including \$20.8 million relating to the write-off of the developed technology intangible asset associated with the Cherry acquisition and a \$0.5 million write-off of a cost basis investment. Sustained price declines in certain product lines triggered an impairment analysis of the carrying value of the developed technology intangible asset and resulted in the Company recording an impairment charge of \$20.8 million. The Company measured the amount of the impairment charge by comparing the carrying value of the developed technology to its estimated fair value. The Company estimated future net cash flows associated with the developed technology intangible asset using price, volume and cost assumptions that management considered to be reasonable in the circumstances. The Company will no longer incur amortization expense of approximately \$12.0 million per year related to this intangible asset.

December 2002

In December 2002, the Company recorded \$12.6 million (net of a \$0.6 adjustment) restructuring, asset impairments and other charges including \$10.1 million for employee separation costs relating the termination of approximately 300 employees, \$1.0 million of asset impairments and approximately \$1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets. The headcount reductions began in the first quarter of 2003 and are expected to be completed by June 2004 and impacted both manufacturing and non-manufacturing personnel mainly in the United States. The asset impairments relate to the closure of a production line and an abandoned capital equipment project in the Czech Republic. The charge also

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

included an additional \$0.3 million reserve related to a headcount reduction in Toulouse, France that was part of the March 2002 restructuring program. The \$0.6 adjustment related to release of previous reserves associated with our March 2001 and June 2001 restructuring programs due the Company's analysis of estimated costs to complete those programs. As of December 31, 2003, there were 56 employees remaining to be terminated during 2004 and the related unpaid severance payments of \$3.1 million are expected to be paid by June 2004. As of December 31, 2003 the remaining liability relating to exit costs was \$0.7 million and is expected to be paid out by June 2005.

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

June 2002

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

The employee separation costs reflected further reductions in general and administrative staffing levels and included \$1.0 million of non-cash stock compensation charges associated with the modification of stock options for certain terminated employees. All impacted employees have been terminated and the related severance costs were paid during 2003.

As a result of continuing economic conditions, the Company determined that certain manufacturing equipment purchase and supply agreements were no longer economical to complete and recorded estimated termination charges of \$2.8 million during the second quarter of 2002. As of December 31, 2003, the Company had settled certain of these obligations with payments of \$1.3 million. In June 2003, the Company recorded an additional \$1.0 million associated with a supply contract that was terminated as part of the June 2002 restructuring program. As of December 31, 2003, all employees had been terminated under the restructuring program. The Company is currently in discussions to settle the remaining obligations.

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

During the second quarter of 2002, the Company reached a settlement of various contractual issues with Motorola in exchange for a cash payment from Motorola of \$10.6 million which resulted in a related gain of \$12.4 million (see Note 17 "Related Party Transactions" for further details of the Motorola settlement). The Company also recorded a \$1.2 million reversal of amounts previously provided in connection with the June 2001 restructuring program as a result of favorable negotiated contract termination costs.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

March 2002

In March 2002, the Company recorded a \$7.1 million (net of a \$0.1 million adjustment) charge to cover employee separation costs relating to the termination of approximately 72 employees. Approximately \$5.0 million of this charge is attributable to employee terminations resulting from the Company's decision to relocate its European administrative functions from Toulouse, France to Roznov, Czech Republic and Piestany, Slovakia. The relocation of these functions was completed in 2003. The remaining \$2.2 million relates to reductions in selling, general and administrative personnel primarily in the U.S. The March 2002 charge also included \$0.2 million of non-cash employee stock compensation expense associated with the modification of stock options for certain terminated employees. As discussed previously, the Company recorded an additional \$0.3 million in employee separation costs relating to the relocation of the administrative functions in Toulouse, France during the fourth quarter of 2002 and \$0.1 million during 2003 as a result of its reevaluation of remaining costs to be incurred. As of December 31, 2003, all employees have been terminated under this program. As of December 31, 2003 the remaining liability relating to this restructuring was \$0.3 million and will be paid by June 2004.

December 2001

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

The employee separation costs reflected reductions in selling, general and administrative staffing levels in the U.S., United Kingdom, Germany, France and Singapore and included \$0.2 million of non-cash charges associated with the modification of stock options for certain terminated employees as well as \$1.3 million for additional pension charges related to the terminated employees. (The additional pension charge is reflected in the Company's accrued pension liability in the consolidated balance sheet.) All impacted employees have been terminated and the related severance amounts have been paid.

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

June 2001

In June 2001, the Company recorded charges totaling \$95.8 million for costs associated with its worldwide restructuring programs. These programs were in response to rapidly changing economic circumstances requiring the Company to rationalize its manufacturing and distribution operations to meet declining customer demand. The programs included the phasing out of manufacturing operations at the Company's Guadalajara, Mexico facility by June 2002, transferring certain manufacturing activities performed at the Company's Aizu, Japan and Seremban, Malaysia facilities to other Company-owned facilities or to third party contractors by June 2002 and December 2001, respectively, and the shutdown of the Company's Hong Kong Distribution Center and the transfer of related functions to its Singapore Distribution Center. The charge included \$36.4 million to cover employee separation costs associated with the termination of approximately 3,200 employees, \$1.1 million of non-cash charges associated with the modification of stock options for certain terminated employees and \$6.1 million for additional pension charges related to terminated employees. (The additional pension charge is reflected in the Company's accrued pension liability in the consolidated balance sheet). All employees have been terminated under the June 2001 restructuring program. Manufacturing operations in Guadalajara ceased in June 2002 as originally planned; however, various administrative activities were not completed until 2003.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

The planned discontinuation of manufacturing activities triggered an impairment analysis of the carrying value of the related assets and resulted in the Company recording asset impairment charges totaling \$42.2 million. This charge included \$31.6 million related to the Guadalajara manufacturing facility, \$4.2 million related to the Aizu, Japan 4-inch wafer fabrication line and \$2.2 million related to the Seremban assembly and test facility. The Company measured the amount of each asset impairment by comparing the carrying value of the respective assets to the related estimated fair value. The Company estimated future net cash flows for the period of continuing manufacturing activities (June 2002 for Guadalajara and Aizu, December 31, 2001 for Seremban) for each group of assets using price, volume, cost and salvage value assumptions that management considered to be reasonable in the circumstances. The impairment charges were recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value. The related assets have been sold to third parties at amounts that approximated their estimated fair values, were transferred to other manufacturing facilities at their previously existing carrying values or are currently held for sale. As previously mentioned, the Company sold the Mexico facility in the third quarter of 2003. The charge also included \$4.2 million for the write-off of assets that will no longer be used by the Company as a result of the June 2001 restructuring program.

The June 2001 charge also included \$10.0 million to cover certain exit costs relating to facility closure and contract terminations including \$2.8 million for expected facility clean up activities, \$1.0 million for equipment disposal fees, \$2.0 million for equipment purchase cancellations and \$4.2 million for other contract cancellations. As discussed previously, the Company recorded an additional \$1.0 million in exit costs and \$0.6 million in employee separation costs relating to the Guadalajara manufacturing facility during the second quarter of 2002 as a result of its reevaluation of remaining costs to be incurred with respect to the closure of that facility. As of December 31, 2003 the remaining liability relating to this restructuring program was \$0.4 million of miscellaneous exit costs which are expected to be paid by April 2004.

March 2001

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

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

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

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 6: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31,	
	2003	2002
Receivables, net:		
Accounts receivable	\$ 138.5	\$ 117.3
Less: Allowance for doubtful accounts	(2.4)	(1.9)
	\$ 136.1	\$ 115.4
Inventories, net:		
Raw materials	\$ 15.2	\$ 15.5
Work in process	111.7	109.8
Finished goods	87.1	81.9
	214.0	207.2
Less: Inventory reserves	(42.4)	(43.7)
	\$ 171.6	\$ 163.5
Property, plant and equipment, net:		
Land	\$ 16.1	\$ 15.0
Buildings	350.5	357.4
Machinery and equipment	1,022.2	1,055.0
	1,388.8	1,427.4
Less: Accumulated depreciation	(889.7)	(842.1)
	\$ 499.1	\$ 585.3
Goodwill, net:		
Goodwill	\$ 95.7	\$ 95.7
Less: Accumulated amortization	(18.4)	(18.4)
	\$ 77.3	\$ 77.3
Intangible asset, net:		
Developed technology	\$ —	\$ 59.3
Less: Accumulated amortization	—	(32.6)
	\$ —	\$ 26.7
Accrued expenses:		
Accrued payroll	\$ 29.6	\$ 27.9
Sales related reserves	17.1	14.2
Restructuring reserves	13.1	19.5
Other	30.1	39.0
	\$ 89.9	\$ 100.6
Other comprehensive loss:		
Foreign currency translation adjustments	\$ 1.7	\$ (2.0)
Additional minimum pension liability	—	(19.6)
Net unrealized losses and adjustments related to cash flow hedges	(5.3)	(12.1)
Unrealized losses on deferred compensation plan investments	(0.8)	(0.6)
	\$ (4.4)	\$ (34.3)

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Depreciation expense for property, plant and equipment totaled \$116.7 million, \$129.0 million and \$145.5 million for 2003, 2002 and 2001, respectively. Amortization expense related to the developed technology intangible asset totaled \$5.9 million, \$11.9 million and \$11.6 million in 2003, 2002 and 2001, respectively.

The activity related to our warranty reserves for 2001, 2002 and 2003 follows:

Balance as of December 31, 2000	\$ 3.5
Provision	0.1
Usage	(0.6)
	<hr/>
Balance as of December 31, 2001	3.0
	<hr/>
Provision	0.1
Usage	(0.4)
	<hr/>
Balance as of December 31, 2002	2.7
	<hr/>
Provision	—
Usage	(0.2)
Reserved released	(0.9)
	<hr/>
Balance as of December 31, 2003	\$ 1.6
	<hr/>

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 7: Long-Term Debt

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

	December 31, 2003		December 31, 2002	
	Interest Rate	Balance	Interest Rate	Balance
Senior Bank Facilities:				
Tranche A	—%	\$ —	6.4375%	\$ 6.6
Tranche B	—	—	6.4375	209.9
Tranche C	—	—	6.4375	226.0
Tranche D	—	—	6.4375	134.1
Tranche E	4.4375	320.1	—	—
Revolver	—	—	6.4375	125.0
		320.1		701.6
First-Lien Senior Secured Notes due 2010, 13% interest payable semi-annually, net of debt discount of \$8.4		191.6		—
Second-Lien Senior Secured Notes due 2008, 13% interest effective February 2003 payable semi-annually, net of debt discount of \$7.4 and \$8.6		292.6		291.4
12% Senior Subordinated Notes due 2009, interest payable semi-annually		260.0		260.0
10% Junior Subordinated Note due 2011, interest compounded semi-annually, payable at maturity		139.9		126.9
2.3% Note payable to Japanese bank due 2010, interest payable semi-annually		24.3		23.3
Loan with a Chinese bank due 2006, interest payable quarterly at 3.1% and 3.5%, respectively		20.0		20.0
Loan with a Chinese bank, interest payable quarterly at 2.7%		48.0		—
Capital lease obligation		6.4		—
		1,302.9		1,423.2
Less: Current maturities		(11.4)		(19.8)
		\$ 1,291.5		\$ 1,403.4

Senior Bank Facilities

Borrowings under the senior bank facilities, which bear interest at rates selected by the Company based on either LIBOR or an alternative base rate, as defined, plus an interest rate spread, amortize within three to five years. As of December 31, 2003, after consideration of the amendments to the credit agreement described below, the senior bank facilities contained a \$25.0 million revolving line of credit. Letters of credit totaling \$12.6 million were outstanding against the line of credit at December 31, 2003 leaving \$12.4 million of availability at that date. As described in Note 14, the Company hedges a portion of the interest rate risk associated with the senior bank facilities.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

At June 29, 2001, the Company was not in compliance with the interest expense coverage and leverage ratio requirements under its senior bank facilities. On August 13, 2001, the Company received a waiver in respect to such non-compliance at June 29, 2001 and in respect of any future non-compliance with such covenants through December 31, 2002. In connection with such waiver, the Company amended its senior bank facilities to, among other things, reduce interest expense coverage and increase leverage ratio requirements through December 31, 2005, add minimum cash and EBITDA level covenants through December 31, 2002, require the Company to obtain \$100 million through an equity investment from TPG (See Note 10), increase the required interest rate spreads applicable to outstanding borrowings (“supplemental interest”), and, revise certain mandatory prepayment provisions contained in the original agreement.

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

In connection with the issuance of the First-Lien Notes described below, the Company amended its senior bank facilities effective as of February 14, 2003 to, among other things, permit the issuance of the First-Lien Notes, eliminate the interest expense and leverage coverage ratio requirements, reduce the minimum EBITDA level covenant (as defined in the credit agreement) to \$140.0 million for any four consecutive fiscal quarters until the final maturity of the senior bank facilities, reduce permitted annual capital expenditures to \$100.0 million (subject to increases in certain circumstances), permit the redemption of up to 35% of the First-Lien Notes with net proceeds of any equity offerings on or prior to March 15, 2006 and to convert \$62.5 million of the amounts outstanding under the revolving credit facility to a new Tranche R term loan.

In September 2003, the Company amended its senior bank facilities to, among other things:

- Provide the Company with additional Tranche D term loans under its senior bank facilities aggregating \$100 million, the entire amount of which was borrowed simultaneously with the completion of the equity offering described in Note 11 “Common Stock”;
- Permit the Company to apply the net proceeds from equity offerings by it or any of its subsidiaries (including the equity offering described in Note 11) and borrowings under the additional Tranche D term loans to prepay scheduled principal installments of all term loan borrowings outstanding under its senior bank facilities in chronological order;
- Reduce from 75% to 50% the percentage of net proceeds from future equity offerings by the Company or any of its subsidiaries that is required to be applied to prepay term loan borrowings outstanding under its senior bank facilities; and,
- Provide the Company with a new \$25 million revolving facility that will mature on August 4, 2006, provide for the issuance of letters of credit in currencies other than U.S. dollars that are to be specified and, in all other respects, have terms substantially similar to those of its existing revolving facility.

The proceeds of the borrowing under the additional Tranche D term loans (which were issued at a discount of \$0.5 million) were used to prepay senior credit facility borrowings as described above. Excluding this

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

discount, costs incurred in connection with this debt refinancing totaled \$3.8 million, of which \$0.4 million was paid to third parties. Such third-party costs were expensed as incurred and included in loss on debt prepayment in the Company's consolidated statement of operations for the year ended December 31, 2003. The remaining \$3.4 million of debt refinancing costs were capitalized and are being amortized using the effective interest method.

In November 2003, the Company refinanced \$368.5 million of term loans under its senior bank facilities. The Company replaced its tranche B, tranche C and tranche D term loan facilities under its senior bank facilities with a single new tranche E term loan facility with terms, other than the interest rate, that are identical to those of the tranche D term loan facility. The new tranche E is due throughout 2006 and 2007, ending in 2007. The Company also reduced the interest rate on its term loans by 0.75% per annum. Costs incurred in connection with this refinancing totaled \$1.0 million, of which \$0.2 million were expensed as incurred while the remaining \$0.8 million of such costs were capitalized and are being amortized using the effective interest method.

In December 2003, the Company refinanced approximately \$48 million of the term loans under its senior bank facilities with the proceeds from a new loan provided to Leshan by the China Construction Bank, the terms of which are described below.

The Company was in compliance with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2003. Management believes that the Company will be able to comply with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2004.

First-Lien Notes

On March 3, 2003, the Company and SCI LLC, (collectively, the "Issuers") issued \$200.0 million principal amount of First-Lien Notes in a private offering that was exempt from the registration requirements of the federal securities laws. The First-Lien Notes, which are callable after four years, were issued at 95.467% of par value and generated net proceeds of approximately \$180.9 million after taking into consideration the discount and the payment of issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company's senior bank facilities, including \$25.0 million relating to the Company's revolving credit facility. In connection with the prepayment, the Company wrote off \$3.5 million of debt issuance costs in the first quarter of 2003. Interest accrues on the First-Lien Notes at a rate of 12% per annum. Interest on the First-Lien Notes is payable semi-annually in March and September. The First-Lien Notes will mature on March 15, 2010.

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

The Issuers filed an exchange offer registration statement on May 1, 2003 relating to the First-Lien Notes pursuant to a registration rights agreement. The registration statement was declared effective by the Securities and Exchange Commission on May 8, 2003.

Second-Lien Notes

On May 6, 2002, the Issuers issued \$300.0 million principal amount of Second-Lien Notes in a private offering that was exempt from the registration requirements of the federal securities laws. The Second-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Lien Notes, which are callable after four years, were issued at 96.902% of par value and generated net proceeds of \$278.6 million after such discount and the payment of issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company's senior bank facilities. In connection with this prepayment, the Company wrote off \$6.5 million of debt issuance costs in the second quarter of 2002. Because the amount outstanding under the senior bank facilities was reduced below \$750.0 million, supplemental interest charges under the credit agreement relating to the senior bank facilities were reduced from 3.0% to 1.0%. The Company exercised its option to terminate the supplemental interest charges by paying the entire accrued balance of supplemental interest charges during the first quarter of 2003. Interest accrues on the Second-Lien Notes at the rate of 12% per annum until February 6, 2003, when the related annual interest increased to 13%. Interest on the Second-Lien Notes is payable semi-annually in May and November in cash. The Second-Lien Notes will mature on May 15, 2008.

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

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

Senior Subordinated Notes

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

Japanese Loan

In 2000, the Company's Japanese subsidiary entered into a yen-denominated note agreement with a Japanese bank to finance the expansion of its manufacturing facilities. The loan, which had a balance of \$24.3 million at December 31, 2003 (based on the yen-to-dollar exchange rate in effect at that date), bears interest at an annual rate of 2.25% and requires semi-annual principal and interest payments through September 2010 of approximately \$1.9 million (based on the yen-to-dollar exchange rate at December 31, 2003.) The note is unsecured, however, the bank has rights under the agreement to obtain collateral in certain circumstances. In addition, the note is guaranteed by SCI, LLC the Company's primary domestic operating subsidiary.

Chinese Loans

The Company's long-term debt includes a \$20 million loan facility between Leshan and a Chinese Bank. Aggregate loans under this facility, which was entered into in November 2000, are comprised of \$16 million of

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borrowings denominated in U.S. dollars and \$4 million of borrowings denominated in Chinese Renminbi (based on year-end exchange rates). Interest on these loans is payable quarterly and accrues at a variable rate based on published market rates in China for six-year term loans. During the fourth quarter of 2003, the Company exercised its ability to extend the maturity of this loan for three years under the same terms and conditions, thereby extending scheduled principal payments to \$10.5 million due in the fourth quarter of 2006 and \$9.5 million due in the first quarter of 2007.

The Company's long-term debt also includes a \$48 million loan facility between Leshan and another Chinese Bank. The loan facility is comprised of two \$24 million tranches. The first tranche has a 10-year term with a balloon payment due December 2013; the second tranche has a three year term with scheduled principal payments through December 2006 extendible for an additional three years under certain circumstances. Each tranche bears interest at a rate of LIBOR plus 1.5% per annum, payable quarterly.

Annual maturities relating to the Company's long-term debt as of December 31, 2003 are as follows (in millions):

	<u>Actual Maturities</u>
2004	\$ 11.4
2005	11.0
2006	152.1
2007	226.2
2008	297.5
Thereafter	604.7
Total	<u>\$ 1,302.9</u>

The Company and SCI LLC are co-issuers of the First-Lien Notes (issued in March 2003), the Second-Lien Notes, and the Senior Subordinated Notes (collectively, "the Notes".) The Company's other domestic subsidiaries (collectively, the "Guarantor Subsidiaries") fully and unconditionally guarantee on a joint and several basis, the Issuers' obligations under the Notes. The Guarantor Subsidiaries include Semiconductor Components Industries of Rhode Island, Inc, an operating subsidiary, as well as holding companies whose net assets consist primarily of an investment in the Leshan joint venture and nominal equity interests in certain of the Company's other foreign subsidiaries. The Company's remaining subsidiaries (collectively, the "Non-Guarantor Subsidiaries") are not guarantors of the Notes. Prior to the fourth quarter of 2003, the Guarantor Subsidiaries also owned an investment in the Company's Czech subsidiaries which was subsequently sold to a Non-Guarantor Subsidiary. Because this transaction was a transfer between entities under common control, the Company has accounted for this transaction in a manner similar to a pooling of interests and has restated all historical Guarantor and Non-Guarantor Subsidiary financial information to reflect the current ownership structure.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

	Issuers					Total
	ON Semi-conductor Corporation (3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
As of December 31, 2003						
Cash and cash equivalents	\$ —	\$ 118.9	\$ —	\$ 67.7	\$ —	\$ 186.6
Receivables, net	—	31.5	—	104.6	—	136.1
Inventories, net	—	21.1	2.2	184.3	(36.0)	171.6
Other current assets	—	3.8	0.1	24.5	—	28.4
Total current assets	—	175.3	2.3	381.1	(36.0)	522.7
Deferred income tax, non current	—	—	—	1.3	—	1.3
Property, plant and equipment, net	—	94.3	15.9	388.9	—	499.1
Goodwill	—	8.1	69.2	—	—	77.3
Investments and other assets	(732.8)	91.7	40.5	39.2	622.4	61.0
Total assets	\$ (732.8)	\$ 369.4	\$ 127.9	\$ 810.5	\$ 586.4	\$ 1,161.4
Accounts payable	\$ —	\$ 29.8	\$ 1.8	\$ 84.1	\$ —	\$ 115.7
Accrued expenses and other current liabilities	—	86.2	5.2	37.2	(0.3)	128.3
Deferred income on sales to distributors	—	19.2	—	47.0	—	66.2
Total current liabilities	—	135.2	7.0	168.3	(0.3)	310.2
Long-term debt (1)	743.2	1,207.1	—	84.4	(743.2)	1,291.5
Other long-term liabilities	—	41.1	—	15.1	2.0	58.2
Intercompany (1)	(951.1)	(448.9)	143.2	308.1	948.7	—
Total liabilities	(207.9)	934.5	150.2	575.9	207.2	1,659.9
Minority interests in consolidated subsidiaries	—	—	—	—	26.4	26.4
Redeemable preferred stock	119.7	—	—	—	—	119.7
Stockholders' equity (deficit)	(644.6)	(565.1)	(22.3)	234.6	352.8	(644.6)
Liabilities, minority interests and stockholders' equity (deficit)	\$ (732.8)	\$ 369.4	\$ 127.9	\$ 810.5	\$ 586.4	\$ 1,161.4

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

	Issuers				Eliminations	Total
	ON Semi-conductor Corporation (3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
As of December 31, 2002						
Cash and cash equivalents	\$ —	\$ 121.5	\$ —	\$ 68.9	\$ —	\$ 190.4
Receivables, net	—	38.2	—	77.2	—	115.4
Inventories, net	—	25.4	0.5	180.3	(42.7)	163.5
Other current assets	—	7.1	0.1	38.6	—	45.8
Total current assets	—	192.2	0.6	365.0	(42.7)	515.1
Property, plant and equipment, net	—	104.4	33.5	447.4	—	585.3
Goodwill and other intangibles, net	—	8.1	95.9	—	—	104.0
Investments and other assets	(596.3)	83.1	35.7	16.1	515.4	54.0
Total assets	\$ (596.3)	\$ 387.8	\$ 165.7	\$ 828.5	\$ 472.7	\$1,258.4
Accounts payable	\$ —	\$ 25.3	\$ 1.7	\$ 47.1	\$ —	\$ 74.1
Accrued expenses and other current liabilities	—	113.0	1.6	51.4	(0.1)	165.9
Deferred income on sales to distributors	—	32.3	—	38.5	—	70.8
Total current liabilities	—	170.6	3.3	137.0	(0.1)	310.8
Long-term debt (1)	551.4	1,372.2	—	31.2	(551.4)	1,403.4
Other long-term liabilities	—	50.3	—	16.8	2.1	69.2
Intercompany (1)	(595.7)	(617.6)	158.9	465.0	589.4	—
Total liabilities	(44.3)	975.5	162.2	650.0	40.0	1,783.4
Minority interests in consolidated subsidiaries	—	—	—	—	27.0	27.0
Redeemable preferred stock	110.1	—	—	—	—	110.1
Stockholders' equity (deficit)	(662.1)	(587.7)	3.5	178.5	405.7	(662.1)
Liabilities, minority interests and stockholders' equity (deficit)	\$ (596.3)	\$ 387.8	\$ 165.7	\$ 828.5	\$ 472.7	\$1,258.4

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

	Issuers					Total
	ON Semi-conductor Corporation (3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
For the year ended December 31, 2003						
Revenues	\$ —	\$ 480.2	\$ 92.9	\$ 1,407.7	\$ (911.7)	\$ 1,069.1
Cost of sales	—	455.5	44.4	1,186.7	(918.5)	768.1
Gross profit	—	24.7	48.5	221.0	6.8	301.0
Research and development	—	25.1	13.6	46.8	—	85.5
Selling and marketing	—	34.9	0.5	27.6	—	63.0
General and administrative	—	14.9	0.2	49.8	—	64.9
Amortization of goodwill and other intangibles	—	—	5.9	—	—	5.9
Restructuring, asset impairments and other, net	—	11.3	39.9	10.0	—	61.2
Total operating expenses	—	86.2	60.1	134.2	—	280.5
Operating income (loss)	—	(61.5)	(11.6)	86.8	6.8	20.5
Interest expense, net	—	(100.3)	(19.0)	(29.8)	—	(149.1)
Loss on debt prepayment	—	(7.7)	—	—	—	(7.7)
Equity in earnings	(166.7)	24.8	4.8	(1.0)	138.1	—
Income (loss) before income taxes, minority interests and cumulative effect of accounting change	(166.7)	(144.7)	(25.8)	56.0	144.9	(136.3)
Income tax provision	—	(6.5)	—	(1.2)	—	(7.7)
Minority interests	—	—	—	—	(1.2)	(1.2)
Income (loss) before cumulative effect of accounting change	(166.7)	(151.2)	(25.8)	54.8	143.7	(145.2)
Cumulative effect of accounting change	—	(20.0)	—	(1.5)	—	(21.5)
Net income (loss)	\$ (166.7)	\$ (171.2)	\$ (25.8)	\$ 53.3	\$ 143.7	\$ (166.7)
Net cash provided by (used in) operating activities	\$ —	\$ (69.0)	\$ 6.6	\$ 108.1	\$ —	\$ 45.7
Cash flows from Investing activities:						
Purchases of property, plant and equipment	—	(21.6)	(6.6)	(31.6)	—	(59.8)
Deposits for purchases of property, plant and equipment	—	(6.8)	—	—	—	(6.8)
Other	—	(1.8)	—	—	—	(1.8)
Proceeds from sales of property, plant and equipment	—	—	—	13.2	—	13.2
Net cash used in investing activities	—	(30.2)	(6.6)	(18.4)	—	(55.2)
Cash flows from financing activities:						
Intercompany loans	—	(301.8)	—	301.8	—	—
Intercompany loan repayments	—	442.0	—	(442.0)	—	—
Proceeds from debt issuance, net of discount	—	290.4	—	48.0	—	338.4
Payment of debt issuance costs	—	(15.3)	—	—	—	(15.3)
Repayment of long term debt	—	(482.7)	—	—	—	(482.7)
Proceeds from Issuance of common stock	—	157.2	—	—	—	157.2
Proceeds from Issuance of common stock under the employee stock purchase plan	—	1.2	—	—	—	1.2
Proceeds from stock option exercise	—	5.6	—	—	—	5.6
Net cash provided by (used in) financing activities	—	96.6	—	(92.2)	—	4.4
Effect of exchange rate changes on cash and cash equivalents	—	—	—	1.3	—	1.3
Net increase in cash and cash equivalents	—	(2.6)	—	(1.2)	—	(3.8)
Cash and cash equivalents, beginning of period	—	121.5	—	68.9	—	190.4
Cash and cash equivalents, end of period	\$ —	\$ 118.9	\$ —	\$ 67.7	\$ —	\$ 186.6

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	Issuers					Total
	ON Semi- conductor Corporation (3)	SCI LLC	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	
For the year ended December 31, 2002						
Revenues	\$ —	\$ 534.5	\$ 72.0	\$ 1,326.4	\$ (839.2)	\$ 1,093.7
Cost of sales	—	470.9	55.1	1,099.8	(830.2)	795.6
Gross profit	—	63.6	16.9	226.6	(9.0)	298.1
Research and development	—	36.0	13.6	31.9	—	81.5
Selling and marketing	—	32.1	1.6	27.5	—	61.2
General and administrative	—	47.2	(0.6)	42.2	—	88.8
Amortization of goodwill and other intangibles	—	—	11.9	—	—	11.9
Restructuring, asset impairments and other, net	—	25.7	(1.1)	3.1	—	27.7
Total operating expenses	—	141.0	25.4	104.7	—	271.1
Operating income (loss)	—	(77.4)	(8.5)	121.9	(9.0)	27.0
Interest expense, net	—	(89.6)	(18.9)	(41.6)	—	(150.1)
Loss on debt prepayment and other (2)	—	(46.9)	—	40.4	—	(6.5)
Equity earnings	(141.9)	72.1	4.5	4.8	60.5	—
Income (loss) before income taxes and minority interests	(141.9)	(141.8)	(22.9)	125.5	51.5	(129.6)
Income tax benefit (provision)	—	(4.6)	—	(4.9)	—	(9.5)
Minority interests	—	—	—	—	(2.8)	(2.8)
Net income (loss)	\$ (141.9)	\$ (146.4)	\$ (22.9)	\$ 120.6	\$ 48.7	\$ (141.9)
Net cash provided by (used in) operating activities	\$ —	\$ (187.9)	\$ 0.4	\$ 238.9	\$ (5.0)	\$ 46.4
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(6.7)	(0.5)	(33.3)	—	(40.5)
Equity injections from Parent	—	(0.5)	—	—	0.5	—
Proceeds from sales of property, plant and equipment	—	2.3	—	2.2	—	4.5
Net cash used in investing activities	—	(4.9)	(0.5)	(31.1)	0.5	(36.0)
Cash flows from financing activities:						
Intercompany loans	—	(233.0)	—	233.0	—	—
Intercompany loan repayments	—	429.4	—	(429.4)	—	—
Proceeds from debt issuance, net of closing costs and discount	—	278.6	—	—	—	278.6
Payments on capital lease obligation	—	(1.1)	—	—	—	(1.1)
Dividends paid to affiliate	—	—	—	(5.0)	5.0	—
Equity injections from Parent	—	—	—	0.5	(0.5)	—
Repayment of long term debt	—	(287.1)	—	—	—	(287.1)
Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan	—	2.6	—	—	—	2.6
Net cash provided by financing activities	—	189.4	—	(200.9)	4.5	(7.0)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	1.0	—	1.0
Net increase (decrease) in cash and cash equivalents	—	(3.4)	(0.1)	7.9	—	4.4
Cash and cash equivalents, beginning of period	—	124.9	0.1	61.0	—	186.0
Cash and cash equivalents, end of period	\$ —	\$ 121.5	\$ —	\$ 68.9	\$ —	\$ 190.4

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

	Issuers					Total
	ON Semi-conductor Corporation (3)	SCI LLC	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
For the year ended December 31, 2001						
Revenues	\$ —	\$ 639.6	\$ 97.5	\$ 1,459.4	\$ (973.3)	\$ 1,223.2
Cost of sales	—	641.7	71.3	1,282.9	(998.2)	997.7
Gross profit	—	(2.1)	26.2	176.5	24.9	225.5
Research and development	—	26.5	3.8	64.2	—	94.5
Selling and marketing	—	39.1	4.3	31.4	—	74.8
General and administrative	—	30.4	—	85.1	—	115.5
Amortization of goodwill and other intangibles	—	—	22.6	—	—	22.6
Restructuring, asset impairment and other, net	—	56.4	2.5	91.5	—	150.4
Total operating expenses	—	152.4	33.2	272.2	—	457.8
Operating income (loss)	—	(154.5)	(7.0)	(95.7)	24.9	(232.3)
Interest expense, net	—	(71.5)	(18.9)	(49.2)	—	(139.6)
Gain on the sale of investment in joint venture	—	—	3.1	—	—	3.1
Equity earnings	(831.4)	(239.5)	4.0	0.2	1,066.7	—
Income (loss) before income taxes and minority interests	(831.4)	(465.5)	(18.8)	(144.7)	1,091.6	(368.8)
Income tax benefit (provision)	—	(325.5)	(14.8)	11.7	(17.2)	(345.8)
Minority interests	—	—	—	—	(0.4)	(0.4)
Cumulative effect of accounting change	—	(44.1)	—	(72.3)	—	(116.4)
Net income (loss)	\$ (831.4)	\$ (835.1)	\$ (33.6)	\$ (205.3)	\$ 1,074.0	\$ (831.4)
Net cash provided by (used in) operating activities	\$ —	\$ (38.2)	\$ 2.3	\$ (80.5)	\$ —	\$ (116.4)
Cash flows from investing activities:						
Purchases of property, plant and equipment	—	(50.4)	(1.1)	(97.5)	—	(149.0)
Other	—	(0.5)	—	(0.1)	—	(0.6)
Proceeds from sale of investment in joint venture	—	20.4	—	—	—	20.4
Proceeds from sales of property, plant and equipment	—	4.8	—	9.0	—	13.8
Net cash used in investing activities	—	(25.7)	(1.1)	(88.6)	—	(115.4)
Cash flows from financing activities:						
Intercompany loans	—	(218.5)	—	218.5	—	—
Intercompany loan repayments	—	145.7	—	(145.7)	—	—
Proceeds from senior credit facilities and other borrowings	—	125.0	—	9.5	—	134.5
Payments on capital lease obligation	—	(1.9)	—	—	—	(1.9)
Proceeds from convertible redeemable preferred stock	—	99.2	—	—	—	99.2
Repayment of debt issuance costs	—	(5.1)	—	—	—	(5.1)
Repayment of long term debt	—	(5.6)	—	—	—	(5.6)
Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan	—	5.1	—	—	—	5.1
Net cash provided by financing activities	—	143.9	—	82.3	—	226.2
Effect of exchange rate changes on cash and cash equivalents	—	—	—	0.8	—	0.8
Net increase (decrease) in cash and cash equivalents	—	80.0	1.2	(86.0)	—	(4.8)
Cash and cash equivalents, beginning of period	—	44.9	(1.1)	147.0	—	190.8
Cash and cash equivalents, end of period	\$ —	\$ 124.9	\$ 0.1	\$ 61.0	\$ —	\$ 186.0

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

- (1) For purposes of this presentation, the Senior Subordinated Notes, Second-Lien Notes, and First-Lien Notes have been reflected in the condensed balance sheets of both the Company and SCI LLC with the appropriate offset reflected in the eliminations column. Interest expense and debt discount amortization has been allocated to SCI LLC only.
- (2) Includes the effects of a \$40.4 million intercompany loan write-off in connection with the closure of the Company's Guadalajara, Mexico facility.
- (3) The Company is a holding company and has no operations apart from those of its operating subsidiaries. Additionally, the Company does not maintain a bank account; rather, SCI LLC, its primary operating subsidiary, processes all of its cash receipts and disbursements on its behalf.

Note 8: Investments in Joint Ventures

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

Note 9: Income Taxes

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

	Year ended December 31,		
	2003	2002	2001
United States	\$(190.0)	\$(233.2)	\$(190.7)
Foreign	53.7	103.6	(178.1)
	\$(136.3)	\$(129.6)	\$(368.8)

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

	Year ended December 31,		
	2003	2002	2001
Current			
Federal	\$ —	\$ —	\$(16.5)
State and local	(0.1)	0.1	0.5
Foreign	7.1	3.0	6.7
	7.0	3.1	(9.3)
Deferred			
Federal	—	—	315.8
State and local	—	—	39.6
Foreign	0.7	6.4	(0.3)
	0.7	6.4	355.1
	\$ 7.7	\$9.5	\$345.8

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

	Year ended December 31,		
	2003	2002	2001
U.S. federal statutory rate	(35.0)%	(35.0)%	(35.0)%
Increase (decrease) resulting from:			
State and local taxes, net of federal tax benefit	(8.8)	(9.0)	(3.4)
Foreign withholding taxes	0.5	1.3	1.5
Foreign rate differential	(15.3)	(25.5)	10.9
Change in valuation allowance	67.4	73.6	119.1
Other	(3.2)	1.9	0.6
	<u>5.6%</u>	<u>7.3%</u>	<u>93.7%</u>

Deferred tax assets as of December 31, 2003 and December 31, 2002 are as follows (in millions):

	Year ended December 31,	
	2003	2002
Net operating loss and tax credit carryforwards	\$ 348.9	\$ 259.6
Tax-deductible goodwill	220.7	235.2
Reserves and accruals	23.0	24.3
Property, plant and equipment	26.0	16.2
Inventories	13.7	15.1
Other	7.9	18.2
	<u>\$ 640.2</u>	<u>\$ 568.6</u>
Valuation allowance	(636.2)	(564.4)
Net deferred tax asset	<u>\$ 4.0</u>	<u>\$ 4.2</u>

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

As of December 31, 2003, the Company's federal, state, and foreign net operating loss carryforwards were \$787.8 million, \$854.5 million, and \$22.9 million, respectively. If not utilized, these net operating losses will expire in varying amounts from 2006 through 2024. The Company's ability to utilize its federal net operating loss carryforwards may be limited in the future if the Company experiences an ownership change as defined by the Internal Revenue Code.

Income taxes have not been provided on the undistributed earnings of certain foreign subsidiaries (approximately \$127.5 million at December 31, 2003) over which the Company has sufficient influence to control the distribution of such earnings and has determined that such earnings have been reinvested indefinitely. These earnings could become subject to federal income tax if they are remitted as dividends, if foreign earnings are loaned to any of the Company's domestic subsidiaries, or if the Company sells its investment in such subsidiaries. The Company estimates that repatriation of these foreign earnings would generate additional foreign withholding taxes of \$16.4 million.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Other assets include \$6.0 million and \$3.0 million of French income tax refunds receivable and \$9.7 million and \$10.4 million of Malaysian income tax refunds receivable at December 31, 2003 and 2002, respectively.

The Company files income tax returns with the taxing authorities in the various jurisdictions in which it operates. Certain of these income tax returns remain subject to audit by the local tax authorities. Management believes that the resolution of any issues raised by such taxing authorities, including application of any related determinations to subsequent open years, will not have an adverse effect on the Company's financial condition or results of operations.

Note 10: Redeemable Preferred Stock

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

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

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

The Company is required to accrete the value of the preferred stock to its redemption value and records such accretion using a straight-line method over the remaining period until the earliest available redemption date of September 7, 2009. Such accretion, which is influenced by changes in the market price of the Company's common stock, reduces net income applicable to common stock. Based on the market prices of the Company's common stock, the Company recorded accretion charges of \$0.5 million, \$0, and \$0 for the years ended December 31, 2003, 2002 and 2001, respectively. Based on the average closing price of the Company's common stock over the last 30 trading days preceding December 31, 2003 of \$6.19, the redemption value of the Preferred Stock would have been \$131.7 million.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

Note 11: Common Stock

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

On September 23, 2003, the Company completed a public offering (the "September 2003 Equity Offering") of common stock registered pursuant to its shelf registration statement originally filed with the Securities and Exchange Commission on April 24, 2002 (as amended on March 14, 2003). In connection with this offering, the Company issued approximately 37.0 million shares (including approximately 2.2 million shares issued in connection with the underwriters' exercise of their option to cover over-allotments) at a price of \$4.50 per share. The net proceeds from this offering were \$156.8 million after deducting the underwriting discount of \$8.2 million (\$0.225 per share) and estimated offering expenses of \$1.4 million (including \$0.4 million that were unpaid as of December 31, 2003). The Company used the net proceeds to prepay \$152.7 million of its senior bank facilities and to pay \$3.8 million of costs associated with the amendment to its senior bank facilities as described in Note 7: "Long-Term Debt". In connection with this prepayment, the Company wrote off \$2.5 million of debt issuance costs.

On February 9, 2004, the Company and its principal stockholder, Texas Pacific Group, completed a public offering (the "February 2004 Equity 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 34.4 million shares (including approximately 0.4 million shares issued in connection with the underwriters' exercise of their option to cover over-allotments) at a price of \$6.98 per share. The net proceeds from this offering received by the Company were \$226.7 million after deducting the underwriting discount of \$10.8 million (\$0.3141 per share) and estimated offering expenses of \$2.4 million. The Company did not receive any of the proceeds from the sale of shares by the selling stockholder. The Company intends to use the net proceeds to redeem \$70.0 million outstanding principal amount of the first lien senior secured notes and \$105 million outstanding principal amount of the second lien senior secured notes, in each case on March 10, 2004 at a redemption price of 112.0% of the principal amount of the notes to be redeemed, together with accrued interest to the redemption date. The Company intends to use the remaining net proceeds for general corporate purposes. In connection with this redemption, the Company intends to write off \$12.0 million of debt issuance costs. In connection with the February 2004 Equity Offering, the Company obtained an amendment and waiver under the credit agreement relating to its senior bank facilities that permits the redemption, waives the requirement that 50% of the net proceeds of the offering be used to prepay loans under the senior bank facilities and amends the credit agreement to permit sale and leaseback transactions involving real or personal property with an aggregate fair value of up to \$15.0 million (and to permit the asset sales in connection therewith) and to provide that net proceeds from asset sales in connection with such transactions will not be required to be used to prepay loans under the senior bank facilities.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Loss per share calculations for 2003, 2002 and 2001 are as follows (in millions, except per share data):

	2003	2002	2001
Net loss before cumulative effect of accounting change	\$(145.2)	\$(141.9)	\$(715.0)
Less: Accretion of beneficial conversion feature relating to convertible redeemable preferred stock	—	—	(13.1)
Less: Accretion to redemption value of convertible redeemable preferred stock	(0.5)	—	—
Less: Convertible redeemable preferred stock dividends	(9.2)	(8.5)	(2.4)
Net loss applicable to common stock before cumulative effect of accounting change	(154.9)	(150.4)	(730.5)
Cumulative effect of accounting change	(21.5)	—	(116.4)
Net loss applicable to common stock	\$(176.4)	\$(150.4)	\$(846.9)
Basic weighted average common shares outstanding	187.4	175.6	173.6
Add: Incremental shares for :			
Dilutive effect of stock options	—	—	—
Convertible redeemable preferred stock	—	—	—
Diluted weighted average common shares outstanding	187.4	175.6	173.6
Loss per share			
Basic:			
Net loss applicable to common stock before cumulative effect of accounting change	\$ (0.83)	\$ (0.86)	\$ (4.21)
Cumulative effect of accounting change	(0.11)	—	(0.67)
Net loss applicable to common stock	\$ (0.94)	\$ (0.86)	\$ (4.88)
Diluted:			
Net loss applicable to common stock before cumulative effect of accounting change	\$ (0.83)	\$ (0.86)	\$ (4.21)
Cumulative effect of accounting change	(0.11)	—	(0.67)
Net loss applicable to common stock	\$ (0.94)	\$ (0.86)	\$ (4.88)

Basic loss per share is computed by dividing net loss adjusted for the accretion of the beneficial conversion feature the accretion to redemption value and dividends all related to the Company's redeemable preferred stock by the weighted average number of common shares outstanding during the period. Diluted loss per share generally assumes the conversion of the convertible redeemable preferred stock into common stock if dilutive and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options. The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. For 2003, 2002 and 2001, the effect of stock option shares were not included as the related impact would have been anti-dilutive as the Company generated a net loss in those periods. Had the Company generated net income in 2003, 2002 and 2001, the assumed exercise of stock options would have resulted in an additional 5.5 million, 3.5 million and 5.1 million shares of diluted weighted average common shares outstanding in 2003, 2002 and 2001, respectively. This computation excludes an additional 11.2 million, 13.3 million and 8.8 million of options outstanding at December 31, 2003, 2002 and 2001 as their exercise price exceeds the average fair market value during those years. For 2003, 2002 and 2001, the assumed conversion of 42.6 million, 39.4 million and 36.4 million shares, respectively, of the redeemable preferred stock was also excluded in determining diluted earnings per share as the related impact would have been anti-dilutive.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 12: Stock Options

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

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

Generally, the options granted under both plans vest over a period of four years. Under the 1999 Plan, all outstanding options and under the 2000 Plan certain outstanding options vest automatically upon a change of control, as defined, provided the option holder is employed by the Company on the date of the change in control. Under the 2000 Plan, certain other outstanding options vest upon a change of control if the Board of Directors of the Company, 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).

There was an aggregate of 10.4 million, 6.3 million and 4.7 million shares of common stock available for grant under the 1999 Plan and the 2000 Plan at December 31, 2003, 2002 and 2001, respectively.

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

	2003		2002		2001	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	22.4	\$ 4.63	18.7	\$ 5.91	14.4	\$ 6.46
Grants	6.0	2.17	9.0	3.12	8.4	5.26
Exercises	(1.9)	1.79	(0.8)	1.50	(0.6)	1.50
Cancellations	(3.1)	5.60	(4.5)	7.47	(3.5)	7.42
Outstanding at end of year	23.4	\$ 4.11	22.4	\$ 4.63	18.7	\$ 5.91
Exercisable at end of year	10.5	\$ 5.04	8.8	\$ 4.90	4.6	\$ 4.65
Weighted average fair value of options granted during the period		\$ 1.50		\$ 1.91		\$ 3.25

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

The following tables summarize options outstanding and options exercisable at December 31, 2003:

	Outstanding Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
\$ 1.03-\$ 1.50	9.3	7.44	\$ 1.38
\$ 1.65-\$ 2.71	2.1	8.86	1.93
\$ 3.06-\$ 4.96	5.8	8.09	3.54
\$ 5.19-\$ 9.03	4.2	7.88	6.21
\$10.88-\$21.38	2.0	6.39	15.92
Totals	23.4		\$ 4.11

	Exercisable Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
\$ 1.03-\$ 1.50	4.7	5.86	\$ 1.49
\$ 1.65-\$ 2.71	0.5	8.86	1.91
\$ 3.06-\$ 4.96	2.0	7.95	3.68
\$ 5.19-\$ 9.03	1.6	7.16	6.54
\$10.88-\$21.38	1.7	6.38	15.93
Totals	10.5		\$ 5.04

These options will expire if not exercised at specific dates through December 2013.

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

In 2001, the Company issued warrants to purchase 1,250,000 shares of common stock to consultants for services rendered during 2001. These warrants, which have an exercise price of \$1.90 per share, were recorded at their estimated fair value of \$1.3 million as a charge to general and administrative expense with an offsetting credit to additional paid-in capital. These warrants vested at the date of grant and were exercised during 2003.

On February 17, 2000, the Company adopted the 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company's full-time employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of the Company's common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. Employees will be limited to annual purchases of \$25,000 under this plan. In addition, during each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to \$6,250 divided by the fair market value of the stock on the first day of the offering period. During 2003, 2002 and 2001, employees purchased approximately 0.7 million, 1.0 million and 1.3 million shares under the plan. During 2001, shareholders voted to amend the 2000 Employee Stock Purchase Plan to increase the number of shares of the Company's common stock issuable thereunder by 4.0 million (to an aggregate of 5.5 million shares).

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 13: Employee Benefit Plans

Defined Benefit Plans

Benefits under all of the Company's plans are valued utilizing the projected unit credit cost method. The Company's policy is to fund its defined benefit plans in accordance with the requirements and regulations of the Internal Revenue Code. The Company expects to contribute \$12.4 million in 2004 based on its current assessment of the economic environment and projected benefit payments. The Company's measurement date for determining its defined benefit obligations for all plans is December 31 of each year.

In connection with the Recapitalization, the Company established the ON Semiconductor Pension Plan (the "Plan") that, after one year of service, covered most U.S. employees who were also formerly employees of Motorola. The Plan's benefit formula was dependent upon each employee's earnings and years of service. In November 1999, the Plan was amended so that benefit accruals under the Plan will be discontinued effective December 31, 2004 for those employees whose combined age and years of service (in complete years) equaled or exceeded 65 at August 4, 1999 (the "Grandfathered Employees"). Benefit accruals under the plan for all other employees were discontinued effective December 31, 2000. Upon termination or retirement, employees may elect to receive their benefits in the form of either an annuity contract or a lump-sum distribution. In 2000, the ON Semiconductor Grandfathered Pension Plan (the "Grandfathered Plan") was established and the assets and accumulated benefits related to the Grandfathered Employees were transferred to the Grandfathered Plan. Effective April 15, 2001, the Company terminated the Plan in a standard termination and substantially all accrued benefits were distributed to participants by December 31, 2001.

The assets of the Company's domestic plans were invested in short-term fixed income securities at December 31, 2003 and 2002. This asset allocation is based on the anticipated timing of benefit payments, historical returns on similar assets and the current economic environment.

In regards to the Grandfathered Plan, the Company reevaluated its current assumptions in light of the actual returns experienced, current annuity rates and the expected discontinuation of benefits as of December 31, 2004 with the subsequent payment of benefits in 2005. The discount rate used to determine the pension obligation at December 31, 2002 and to determine future expense was lowered to 5.0% at December 31, 2002 from 7.4% at December 31, 2001. In addition, the expected return on plan assets used to determine future expense was lowered to 2.5%, reflecting the Company's change in investment policy regarding the assets of the Grandfathered Plan. Upon the termination of the Grandfathered Plan, the Company is obligated to ensure that the plan has assets sufficient to pay accrued benefits.

Certain of the Company's foreign subsidiaries provide retirement plans for substantially all of their employees. Such plans conform to local practice in terms of providing minimum benefits mandated by law, collective agreements or customary practice.

As described in Note 4 "Accounting Changes," effective January 1, 2003, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. The Company will no longer defer actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

	Year Ended December 31,								
	2003			2002			2001		
	U.S. Pension Plan	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Service cost	\$ 1.7	\$ 1.3	\$ 3.0	\$ 1.8	\$ 1.3	\$ 3.1	\$ 2.1	\$ 2.2	\$ 4.3
Interest cost	2.4	0.9	3.3	3.0	0.8	3.8	2.4	1.6	4.0
Expected return on plan assets	(0.5)	(0.3)	(0.8)	(1.2)	(0.3)	(1.5)	(1.4)	(1.0)	(2.4)
Amortization of prior service cost	0.1	0.3	0.4	0.1	0.3	0.4	0.2	0.4	0.6
Settlement losses	—	—	—	0.4	—	0.4	9.9	2.3	12.2
Curtailement gain	—	—	—	—	(0.3)	(0.3)	—	—	—
Cumulative effect of accounting change	20.0	1.5	21.5	—	—	—	—	—	—
Other losses (gains)	(0.9)	—	(0.9)	4.9	—	4.9	0.3	—	0.3
Total net periodic pension cost	\$ 22.8	\$ 3.7	\$26.5	\$ 9.0	\$ 1.8	\$10.8	\$ 13.5	\$ 5.5	\$19.0
Weighted average assumptions									
Discount rate	5.00%	4.40%		7.40%	5.08%		6.80%	5.76%	
Expected return on plan assets	2.50%	5.73%		8.50%	3.17%		8.50%	7.46%	
Rate of compensation increase	3.00%	3.17%		3.00%	3.77%		3.00%	3.77%	

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

	December 31,					
	2003			2002		
	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Change in projected benefit obligation						
Projected benefit obligation at the beginning of the year	\$ 46.8	\$ 19.3	\$ 66.1	\$ 41.5	\$ 22.3	\$ 63.8
Service cost	1.7	1.3	3.0	1.8	1.3	3.1
Interest cost	2.4	0.9	3.3	3.0	0.8	3.8
Net actuarial (gain) or loss	(1.1)	(0.1)	(1.2)	5.3	1.2	6.5
Curtailment gain	—	—	—	—	(0.3)	(0.3)
Benefits paid	(10.3)	(0.5)	(10.8)	(4.8)	(6.7)	(11.5)
Translation loss	—	1.7	1.7	—	0.7	0.7
Projected benefit obligation at the end of the year	<u>\$ 39.5</u>	<u>\$ 22.6</u>	<u>\$ 62.1</u>	<u>\$ 46.8</u>	<u>\$ 19.3</u>	<u>\$ 66.1</u>
Accumulated benefit obligation at the end of the year	<u>\$ 38.8</u>	<u>\$ 18.7</u>	<u>\$ 57.5</u>	<u>\$ 45.7</u>	<u>\$ 16.0</u>	<u>\$ 61.7</u>
Change in plan assets						
Fair value of plan assets at the beginning of the year	\$ 17.2	\$ 4.0	\$ 21.2	\$ 10.1	\$ 9.1	\$ 19.2
Actual return on plan assets	0.4	0.3	0.7	(1.1)	0.3	(0.8)
Benefits paid	(10.3)	(0.5)	(10.8)	(4.8)	(6.7)	(11.5)
Employer contributions	6.4	1.6	8.0	13.0	1.3	14.3
Translation gain	—	0.4	0.4	—	—	—
Fair value of plan assets at the end of the year	<u>\$ 13.7</u>	<u>\$ 5.8</u>	<u>\$ 19.5</u>	<u>\$ 17.2</u>	<u>\$ 4.0</u>	<u>\$ 21.2</u>
Net amount recognized						
Funded status	\$ (25.8)	\$ (16.8)	\$ (42.6)	\$ (29.6)	\$ (15.3)	\$ (44.9)
Unrecognized prior service cost	0.7	1.8	2.5	0.9	1.9	2.8
Unrecognized net actuarial loss	—	—	—	20.0	1.5	21.5
Net amount recognized	<u>\$ (25.1)</u>	<u>\$ (15.0)</u>	<u>\$ (40.1)</u>	<u>\$ (8.7)</u>	<u>\$ (11.9)</u>	<u>\$ (20.6)</u>
Amounts recognized in the statement of financial position						
Accrued benefit liability	\$ (10.9)	\$ (1.5)	\$ (12.4)	\$ (6.4)	\$ (2.0)	\$ (8.4)
Other long-term liabilities	(14.2)	(13.6)	(27.8)	(22.0)	(11.8)	(33.8)
Intangible asset	—	0.1	0.1	0.8	1.2	2.0
Accumulated other comprehensive income	—	—	—	18.9	0.7	19.6
Net amount recognized	<u>\$ (25.1)</u>	<u>\$ (15.0)</u>	<u>\$ (40.1)</u>	<u>\$ (8.7)</u>	<u>\$ (11.9)</u>	<u>\$ (20.6)</u>
Weighted average assumptions at the end of the year						
Discount rate	5.16%	4.29%		5.00%	4.40%	
Rate of compensation increases	3.00%	3.18%		3.00%	3.17%	

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$59.4 million, \$56.5 million, and \$17.7 million, respectively, as of December 31, 2003 and \$63.8 million, \$56.8 million, and \$19.6 million, respectively as of December 31, 2002.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

The Company recognizes a minimum liability in its financial statements for its underfunded pension plans. The total accrued pension liability of \$40.2 million and \$42.2 million at December 31, 2003 and 2002, respectively, including additional minimum pension liability of \$0.1 million and \$21.6 million, respectively. The additional minimum liability was offset by a \$0.1 million intangible asset at December 31, 2003 compared with a \$2.0 million intangible asset and a \$19.6 million increase to stockholders' deficit at December 31, 2002. The decrease in the additional minimum liability relates to the previously described accounting change.

Defined Contribution Plans

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

Effective March 1, 2001 the Company amended the Savings Plan to make the matching contribution discretionary. A discretionary matching contribution was offered through April 2001, resulting in \$2.2 million of related expense in 2001. Effective January 1, 2002, the Company reinstated a discretionary matching contribution of 100% of the first 3% of employee contributions and, if certain financial goals are achieved, an additional 50% of the next 6% of employee contributions. The Company recognized \$3.3 million and \$4.0 million of expense relating to matching contributions in 2003 and 2002, respectively.

Certain foreign subsidiaries have defined contribution plans in which eligible employees participate. The Company recognized compensation expense of \$0.9 million, \$0.4 million and \$0.6 million relating to these plans for the years ended 2003, 2002 and 2001, respectively.

Note 14: Financial Instruments

Foreign Currencies

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

Prior to the fourth quarter of 2003, the Company's foreign subsidiaries provided forecasts of their foreign currency exposures. The Company then aggregated the forecasted amounts and entered into foreign currency contracts in order to create an offset to the underlying exposures. Losses or gains on the underlying cash flows or investments offset gains or losses on the financial instruments. Beginning in the fourth quarter of 2003, the Company modified its foreign exchange management program so that aggregate foreign currency exposures are compared against bank forecasted foreign currency exchange rates for the next three months. If the forecasted movements are unfavorable, the Company may decide to hedge all or a portion of the applicable foreign currency exposure. The Company primarily hedges existing assets and liabilities and cash flows associated with transactions currently on its balance sheet.

At December 31, 2003 and 2002, the Company had net outstanding foreign exchange contracts with notional amounts of \$3.0 million and \$19.5 million, respectively. Such contracts were obtained through financial institutions and were scheduled to mature within three months. Management believes that these financial

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

instruments should not subject the Company to increased risks from foreign exchange movements because gains and losses on these contracts, should offset losses and gains on the assets, liabilities and transactions being hedged. The following schedule shows the Company's net foreign exchange positions in U.S. dollars as of December 31, 2003 and 2002 (in millions):

	December 31,	
	2003 Buy (Sell)	2002 Buy (Sell)
Japanese Yen	\$ —	\$ (16.3)
Czech Koruna	—	2.7
Euro	2.6	(11.4)
Philippine Peso	—	1.8
Mexican Peso	—	0.3
British Pound	—	5.0
Singapore Dollar	—	1.8
Swedish Krona	—	1.5
Taiwan Dollar	—	(4.9)
Slovakian Koruna	0.4	—
	<u>\$ 3.0</u>	<u>\$ (19.5)</u>

The Company is exposed to credit-related losses if counterparties to its foreign exchange contracts fail to perform their obligations. At December 31, 2003, the counterparties on the Company's foreign exchange contracts are two highly rated financial institutions and no credit-related losses are anticipated. Amounts payable or receivable under the contracts are included in other current assets or accrued expenses in the accompanying consolidated balance sheet. For 2003, 2002 and 2001, aggregate foreign currency transaction gains total \$4.7 million, \$0.1 million and \$1.2 million, respectively.

Interest Rate Agreements

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

Other

At December 31, 2003, the Company had no outstanding commodity derivatives, currency swaps or options relating to either its debt instruments or investments. The Company does not hedge the value of its equity investments in its subsidiaries or affiliated companies.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 15: Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Long-term Debt

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

Foreign Currency Exchange Contracts

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

Interest Rate Agreements

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

Series A Cumulative Convertible Redeemable Preferred Stock

The fair value of the Company's cumulative convertible redeemable preferred stock as of December 31, 2003 and 2002 were estimated as the sum of the present value of the related future cash flows discounted at a rate for a financial instrument with similar characteristics plus the estimated fair value of the conversion option using the Black Scholes option-pricing model.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2003 and 2002 are as follows (in millions):

	December 31, 2003		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	(1,291.5)	(1,426.2)	(1,403.4)	(1,009.4)
Foreign currency exchange contracts	0.9	0.9	(0.3)	(0.3)
Interest rate agreements	(4.6)	(4.6)	(10.5)	(10.5)
Series A preferred stock	(119.7)	(280.8)	(110.1)	(93.1)

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 16: Commitments and Contingencies**Leases**

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of December 31, 2003 (in millions):

Year ending December 31,	
2004	\$ 8.4
2005	5.3
2006	2.1
2007	0.4
2008	0.1
Thereafter	0.1
Total	\$16.4

The Company's existing leases do not contain significant restrictive provisions; however, certain leases contain renewal options and provisions for payment by the Company of real estate taxes, insurance and maintenance costs. Total rent expense for 2003, 2002 and 2001 was \$13.3 million, \$12.3 million and \$11.0 million, respectively.

The Company also enters into various capital purchase obligations, supply agreements and service agreements with various vendors. The obligations for these types of agreements are as follows as of December 31, 2003:

	<u>Total</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>
Capital purchase obligations	\$ 9.6	\$ 9.6	\$ —	\$ —	\$ —	\$ —	\$ —
Foundry and inventory purchase obligations	31.3	31.3	—	—	—	—	—
Mainframe support	17.7	8.6	7.4	1.7	—	—	—
Various information technology and communication services	17.9	15.5	1.2	1.1	—	—	0.1
Other	4.3	3.0	1.0	0.3	—	—	—
	<u>\$80.8</u>	<u>\$68.0</u>	<u>\$9.6</u>	<u>\$3.1</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 0.1</u>

At December 31, 2003, the Company has a letter of credit totaling \$2.6 million to partially secure a service agreement with an information technology vendor. A downgrade in the Company's debt rating could trigger acceleration of remaining amounts due under this agreement, a portion of which would be satisfied by the letters of credit. The agreement expires in 2006. The letter of credit is renewable annually until 2005 when it expires.

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.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Legal Matters

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

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

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

In June 2003, upon the determination of a special independent committee of our Board of Directors, the Company elected to participate in a proposed settlement with the plaintiffs in this litigation. If ultimately approved by the Court, this proposed settlement would result in a dismissal, with prejudice, of all claims in the litigation against the Company and against any of the other issuer defendants who elect to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation against those defendants is continuing. The proposed

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of \$1 billion by the participating issuer defendants. If recoveries totaling less than \$1 billion are obtained by the class members from the underwriter defendants, the class members will be entitled to recover the difference between \$1 billion and the aggregate amount of those recoveries from the participating issuer defendants. If recoveries totaling \$1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, the Company and any other participating issuer defendants will be required to assign to the class members certain claims that they may have against the underwriters of our initial public offerings.

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 17: Related Party Transactions

The Company agreed to pay TPG an annual management fee of up to \$2.0 million. In connection with the Cherry acquisition the Company paid TPG a \$2.0 million advisory fee in-lieu of the annual management fee for 2000. The payment of the annual management fees to TPG has been waived until certain conditions are met under the Company's amended debt agreements and no such annual management fees were incurred in 2001, 2002 or 2003. Management fees may be paid to TPG in cash or with the Company's common stock or warrants.

In connection with the Recapitalization, Motorola assigned, licensed or sublicensed intellectual property to the Company relating to certain of the Company's products. Motorola also agreed to continue providing manufacturing and assembly services, to continue using similar services the Company provides to them and to lease real estate to the Company. The manufacturing and assembly services that the Company and Motorola have agreed to continue to provide to each other are at prices intended to approximate each party's cost of providing the services and are fixed throughout the term of the agreements. As of December 31, 2003, the Company has no minimum commitments to purchase manufacturing services from Motorola in 2004. Related party activity between the Company and Motorola is as follows (in millions):

	Year ended December 31,		
	2003	2002	2001
Cash paid for:			
Purchases of manufacturing services from Motorola	\$ 8.9	\$14.3	\$87.4
Cost of other services, rent and equipment purchased from Motorola	\$ 0.8	\$ 1.5	\$17.7
Cash received for:			
Freight sharing agreement with Motorola	\$ —	\$21.4	\$21.9
Rental of property and equipment to Motorola	\$ 5.6	\$ 9.1	\$11.2
Product sales to Motorola	\$74.9	\$99.5	\$94.3

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

As part of the recapitalization, Motorola agreed to provide the Company with worldwide freight services through August 4, 2002. This agreement resulted in better prices than the Company could obtain from third parties.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 18: Supplemental Disclosure of Cash Flow Information

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

	Year ended December 31,		
	2003	2002	2001
Non-cash financing activities:			
Equipment acquired through capital leases	\$ 6.6	\$ —	\$ 3.0
Cash (received) paid for:			
Interest income	\$ (2.4)	\$ (6.5)	\$ (1.2)
Interest expense	146.1	110.3	119.3
Income taxes	—	1.8	(1.3)

Note 19: Segment Information

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

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

	Year ended December 31,		
	2003	2002	2001
United States	\$ 319.5	\$ 393.1	\$ 430.6
The Other Americas	4.0	8.2	55.1
Asia/Pacific	493.0	425.7	385.4
Europe	189.3	201.7	264.0
Japan	63.3	65.0	88.1
	\$ 1,069.1	\$ 1,093.7	\$ 1,223.2
	Year ended December 31,		
	2003	2002	2001
Power Management and Standard Analog	\$ 333.4	\$ 362.7	\$ 365.4
MOS Power Devices	152.5	138.7	146.7
High Frequency Clock and Data Management	80.5	72.0	118.5
Standard Components	502.7	520.3	592.6
	\$ 1,069.1	\$ 1,093.7	\$ 1,223.2

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

	December 31,	
	2003	2002
China	\$ 119.2	\$ 131.2
United States	94.3	104.4
Europe	89.4	97.4
Malaysia	78.7	103.1
Japan	71.7	72.6
The Other Asia/Pacific	25.7	32.6
The Other Americas	20.1	44.0
	\$499.1	\$585.3

Sales to Motorola and two other customers accounted for approximately 7%, 9% and 13%, respectively of the Company's total revenue during 2003 compared to approximately 8%, 10% and 10%, respectively during 2002, and approximately 7%, 8% and 8%, respectively during 2001.

Note 20: Selected Quarterly Financial Data (unaudited):

Consolidated quarterly financial information for 2003 and 2002 follows (in millions, except per share data):

	Quarter ended 2003			
	Apr. 4 (3)	July 4 (4)	Oct. 3 (5)	Dec. 31 (6)
Total revenues	\$ 269.5	\$ 256.2	\$ 264.8	\$ 278.6
Gross profit	74.4	73.4	74.1	78.4
Net loss before cumulative effect of accounting change	(29.0)	(57.5)	(16.3)	(42.4)
Net loss	(50.5)	(57.5)	(16.3)	(42.4)
Diluted net loss before cumulative effect of accounting change per common share	\$ (0.18)	\$ (0.34)	\$ (0.10)	\$ (0.21)
Diluted net loss per common share	\$ (0.30)	\$ (0.34)	\$ (0.10)	\$ (0.21)
	Quarter ended 2002			
	Mar. 29	June 28 (1)	Sept. 27	Dec. 31 (2)
Total revenues	\$ 271.0	\$ 280.6	\$ 273.6	\$ 268.5
Gross profit	61.9	82.1	79.0	74.8
Net loss	(50.0)	(31.8)	(20.5)	(39.6)
Diluted net loss per common share	\$ (0.30)	\$ (0.19)	\$ (0.13)	\$ (0.24)

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

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

the second quarter of 2002, the Company reached a settlement of various contractual issues with Motorola in exchange for a cash payment from Motorola of \$10.6 million and recorded a related gain of \$12.4 million.

- (2) In December 2002, the Company recorded \$12.6 million (net of a \$0.6 adjustment) of restructuring, asset impairments and other charges. The charges included \$10.1 million to cover employee separation costs relating the termination of approximately 300 employees, \$1.0 million of asset impairments and approximately \$1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets. The Company also recorded a \$4.9 million charge to cover the costs associated with the separation of two of the Company's executive officers including \$2.9 million of non-cash stock compensation relating to the modification of the vesting and exercise period for a portion of the executives' stock options.
- (3) Effective January 1, 2003, the Company changed its method of accounting for net unrecognized actuarial gains or losses related to its defined benefit pension obligations. The cumulative effect of this accounting change for the periods prior to January 1, 2003 was a charge of \$21.5 million both before and after income taxes.
- (4) In June 2003, the Company recorded charges totaling \$13.3 million associated with its worldwide restructuring programs. The charges included \$0.4 million to cover employee separation costs relating to the termination of approximately 16 employees, \$1.4 million of lease and contract termination exit costs, \$10.5 million of asset impairments and an additional \$1.0 million associated with a supply contract that was terminated as part of the June 2002 restructuring program. Also during the second quarter of 2003, the Company recorded non-cash impairment charges totaling \$21.3 million consisting of \$20.8 million related to the write-off of the developed technology intangible asset associated with the April 2000 purchase of Cherry Semiconductor Corporation and a \$0.5 million write-off of a cost-basis investment.
- (5) In September 2003, the Company recorded a \$4.6 million gain in connection with the sale of the Guadalajara, Mexico facility. This gain was partially offset by charges totaling \$1.4 million associated with worldwide restructuring programs to cover employee separation costs relating to the termination of approximately 36 employees, reflecting further reductions in manufacturing and general and administrative personnel in France, Germany, the Czech Republic, Hong Kong and the United States. The Company also recorded a \$0.2 million reversal of amounts previously recorded in connection with the Company's June 2001 and December 2001 restructuring programs and an additional \$0.1 million charge associated with its March 2002 restructuring program.
- (6) In December 2003, the Company recorded \$29.9 million of restructuring, asset impairments and other charges. These charges included \$5.2 million to cover employee separation costs for East Greenwich of \$3.8 million for approximately 325 employees and a portion of the total severance charges for approximately 460 employees in the Czech Republic of \$0.5 million and a remaining \$0.9 million charge relates to severance benefits for approximately 10 employees in general and administrative functions in the United States and Europe. The December 2003 restructuring also included \$0.4 million of lease and contract termination exit costs, \$20.2 million of asset impairments associated with the Company's restructuring programs, and \$4.3 million of other charges associated with the write-down of certain other assets. The Company also recorded a \$0.2 million reversal of amounts previously recorded in connection with the Company's June 2001 and December 2002 restructuring programs.

**REPORT OF INDEPENDENT AUDITORS ON
FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors and Stockholders of
ON Semiconductor Corporation

Our audits of the consolidated financial statements referred to in our report dated February 2, 2004, except for the third paragraph of Note 2 and the third paragraph of Note 11 for which the date is February 9, 2004, also included an audit of the accompanying financial statement schedule. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers, LLP

Phoenix, Arizona
February 2, 2004

ON SEMICONDUCTOR CORPORATION
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>	<u>Deductions/ Writeoffs</u>	<u>Balance at End of Period</u>
<i>Allowance for doubtful accounts</i>					
Year ended December 31, 2001	\$ 3.1	\$ 0.5	\$ —	\$ 1.3	\$ 2.3
Year ended December 31, 2002	\$ 2.3	\$ —	\$ —	\$ 0.4	\$ 1.9
Year ended December 31, 2003	\$ 1.9	\$ 0.5	\$ —	\$ —	\$ 2.4
<i>Inventory reserves</i>					
Year ended December 31, 2001	\$ 22.9	\$ 50.9	\$ —	\$ 22.5	\$ 51.3
Year ended December 31, 2002	\$ 51.3	\$ 16.0	\$ —	\$ 23.6	\$ 43.7
Year ended December 31, 2003	\$ 43.7	\$ 13.0	\$ —	\$ 14.3	\$ 42.4
<i>Allowance for deferred tax assets</i>					
Year ended December 31, 2001	\$ —	\$ 366.8	\$ 83.8(1)	\$ —	\$ 450.6
Year ended December 31, 2002	\$ 450.6	\$ 1.0	\$ 112.8(2)	\$ —	\$ 564.4
Year ended December 31, 2003	\$ 564.4	\$ —	\$ 71.8	\$ —	\$ 636.2

(1) Represents the valuation allowance related to the 2001 portion of the net operating loss that was not recognized during the year.

(2) Represents the valuation allowance related to the 2002 portion of the net operating loss that was not recognized during the year.

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2003 and 2002 and for
the Years Ended December 31, 2003, 2002 and 2001

REPORT OF INDEPENDENT AUDITORS

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of member's equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Semiconductor Components Industries, LLC and its subsidiaries (a wholly-owned subsidiary of ON Semiconductor Corporation) at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 4 to the consolidated financial statements, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations effective January 1, 2003 and its method of accounting for goodwill and other intangible assets effective January 1, 2002.

PRICEWATERHOUSECOOPERS LLP

Phoenix, Arizona
February 2, 2004, except for the
third paragraph of Note 2
for which the date is February 9, 2004

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED BALANCE SHEET
(in millions)

	December 31,	
	2003	2002
ASSETS		
Cash and cash equivalents	\$ 181.7	\$ 182.4
Receivables, net (including \$7.7 and \$4.7 due from Motorola)	131.9	111.9
Inventories, net	167.6	160.0
Other current assets	23.9	36.3
Deferred income taxes	2.7	6.4
Total current assets	507.8	497.0
Property, plant and equipment, net	379.9	454.1
Deferred income taxes	1.3	—
Goodwill, net	77.3	77.3
Intangibles assets, net	—	26.7
Notes receivable from affiliates	—	63.3
Other assets	61.0	54.0
Total assets	\$ 1,027.3	\$ 1,172.4
LIABILITIES, MINORITY INTEREST AND MEMBER'S EQUITY (DEFICIT)		
Accounts payable (including \$0.4 and \$0.1 payable to Motorola)	\$ 104.4	\$ 67.2
Accrued expenses (including \$0.7 and \$11.7 payable to Motorola)	88.8	99.9
Due to affiliates, net	12.4	0.2
Income taxes payable	1.7	1.9
Accrued interest	25.3	43.6
Deferred income on sales to distributors	66.2	70.8
Current portion of long-term debt	6.6	9.3
Total current liabilities	305.4	292.9
Long-term debt (including \$139.9 and \$126.9 payable to Motorola)	1,228.3	1,393.9
Other long-term liabilities	58.2	67.0
Deferred income taxes	—	2.2
Total liabilities	1,591.9	1,756.0
Commitments and contingencies (See Note 14)	—	—
Minority interests in consolidated subsidiary	0.5	4.1
Contributed capital	1,029.6	865.7
Accumulated other comprehensive loss	(4.4)	(34.3)
Accumulated deficit	(1,590.3)	(1,419.1)
Total member's equity (deficit)	(565.1)	(587.7)
Total liabilities, minority interest and member's equity (deficit)	\$ 1,027.3	\$ 1,172.4

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

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED STATEMENT OF OPERATIONS
(in millions)

	Year Ended December 31,		
	2003	2002	2001
Revenues (including \$77.9, \$87.7 and \$98.9 from Motorola)	\$ 1,060.9	\$ 1,084.5	\$ 1,214.6
Cost of sales	771.2	798.7	1,001.8
Gross profit	289.7	285.8	212.8
Operating expenses:			
Research and development	85.5	81.5	94.5
Selling and marketing	63.0	61.2	74.8
General and administrative	64.9	88.8	115.5
Amortization of goodwill and intangibles	5.9	11.9	22.6
Restructuring, asset impairments and other, net	61.2	27.7	150.4
Total operating expenses	280.5	271.1	457.8
Operating income (loss)	9.2	14.7	(245.0)
Interest expense	(150.5)	(151.7)	(142.4)
Interest income	4.1	5.9	8.9
Loss on debt prepayment	(7.7)	(6.5)	—
Loss before income taxes, minority interest and cumulative effect of accounting change	(144.9)	(137.6)	(378.5)
Income tax provision	(6.8)	(8.8)	(342.3)
Minority interest	2.0	—	2.1
Loss before cumulative effect of accounting change	(149.7)	(146.4)	(718.7)
Cumulative effect of accounting change (net of income taxes of \$0 in 2003 and \$38.8 in 2001)	(21.5)	—	(116.4)
Net loss	\$ (171.2)	\$ (146.4)	\$ (835.1)

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

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED STATEMENT OF MEMBER'S EQUITY (DEFICIT)
(in millions)

	Contributed Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at December 31, 2000	732.1	(0.7)	(437.6)	293.8
Net capital contributions from Member	130.5			130.5
Comprehensive income (loss):				
Net loss	—	—	(835.1)	(835.1)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	—	(3.9)	—	(3.9)
Additional minimum pension liability	—	(13.5)	—	(13.5)
Cumulative effect of accounting change	—	(5.7)	—	(5.7)
Effects of cash flow hedges	—	(9.0)	—	(9.0)
Other comprehensive loss		(32.1)		(32.1)
Comprehensive loss		—		(867.2)
Balance at December 31, 2001	862.6	(32.8)	(1,272.7)	(442.9)
Net capital contributions from Member	3.1			3.1
Comprehensive income (loss):				
Net loss	—	—	(146.4)	(146.4)
Other comprehensive income (loss):				
Foreign currency translation adjustments	—	2.3	—	2.3
Additional minimum pension liability	—	(5.8)	—	(5.8)
Unrealized losses on deferred compensation plan investments	—	(0.6)	—	(0.6)
Effects of cash flow hedges	—	2.6	—	2.6
Other comprehensive loss		(1.5)		(1.5)
Comprehensive loss		—		(147.9)
Balance at December 31, 2002	865.7	(34.3)	(1,419.1)	(587.7)
Net capital contributions from Member	180.0			180.0
Distribution to Member	(16.1)			(16.1)
Comprehensive income (loss):				
Net loss	—	—	(171.2)	(171.2)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	—	2.5	—	2.5
Additional minimum pension liability	—	19.6	—	19.6
Unrealized losses on deferred compensation plan investments	—	(0.2)	—	(0.2)
Effects of cash flow hedges	—	8.0	—	8.0
Other comprehensive loss		29.9		29.9
Comprehensive loss		—		(141.3)
Balance at December 31, 2003	\$ 1,029.6	\$ (4.4)	\$ (1,590.3)	\$ (565.1)

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

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC AND SUBSIDIARIES
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2003	2002	2001
	(In millions)		
Cash flows from operating activities:			
Net loss	\$(171.2)	\$(146.4)	\$(835.1)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	111.1	133.4	165.8
Loss on debt prepayment	7.7	6.5	—
Cumulative effect of accounting change	21.5	—	155.2
Amortization of debt issuance costs and debt discount	8.7	8.1	6.0
Provision for excess inventories	13.0	12.1	50.9
Non-cash impairment of property, plant and equipment	30.7	12.4	56.2
Non-cash interest on junior subordinated note payable to Motorola	13.0	11.7	10.7
Non-cash writedown of other long-lived assets	25.6	—	—
Stock compensation expense	0.1	4.5	5.0
Deferred income taxes	0.2	7.8	317.0
Other	(3.0)	(0.2)	(3.0)
Changes in assets and liabilities:			
Receivables	(20.1)	22.7	135.4
Inventories	(20.5)	11.9	23.1
Other assets	4.6	6.5	(1.7)
Accounts payable	36.9	(38.6)	(56.6)
Accrued expenses	(15.8)	(8.1)	(51.5)
Due to and due from affiliates	12.2	4.8	(11.9)
Income taxes payables	(0.2)	(11.3)	(19.9)
Accrued interest	(18.3)	19.2	(4.5)
Deferred income on sales to distributors	(4.6)	(28.6)	(82.8)
Other long-term liabilities	(1.4)	2.1	3.6
	<u>30.2</u>	<u>30.5</u>	<u>(138.1)</u>
Cash flows from investing activities:			
Purchases of property, plant and equipment	(56.1)	(26.5)	(117.9)
Deposits for purchases of property, plant and equipment	(6.8)	—	—
Other	(1.8)	—	(0.6)
Purchase of affiliated company from Member	(18.5)	—	—
Loans to affiliates	—	—	(5.0)
Proceeds from repayment of loans to affiliates	63.3	—	—
Proceeds from sales of property, plant and equipment	13.2	4.5	13.8
	<u>(6.7)</u>	<u>(22.0)</u>	<u>(109.7)</u>
Cash flows from financing activities:			
Net capital contributions from Member	182.1	2.7	125.5
Proceeds from debt issuance	290.4	290.7	—
Proceeds from senior credit facilities and other borrowings	—	—	125.0
Payment of capital lease obligation	—	(1.1)	(1.9)
Payment of debt issuance costs	(15.3)	(12.1)	(5.1)
Repayment of senior credit facilities	(482.7)	(287.1)	(5.6)
	<u>(25.5)</u>	<u>(6.9)</u>	<u>237.9</u>
Effect of exchange rate changes on cash and cash equivalents	1.3	1.0	0.8
Net increase (decrease) in cash and cash equivalents	(0.7)	2.6	(9.1)
Cash and cash equivalents, beginning of period	182.4	179.8	188.9
Cash and cash equivalents, end of period	<u>\$ 181.7</u>	<u>\$ 182.4</u>	<u>\$ 179.8</u>

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

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

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

On August 4, 1999, ON Semiconductor was recapitalized and certain related transactions were effected pursuant to an agreement among ON Semiconductor, the Company, Motorola and affiliates of Texas Pacific Group (“TPG”). Because TPG’s affiliate did not acquire substantially all of ON Semiconductor’s common stock, the basis of ON Semiconductor’s assets and liabilities for financial reporting purposes was not impacted by the Recapitalization.

In the fourth quarter of 2003, ON Semiconductor transferred the ownership of a majority-owned subsidiary to the Company in exchange for \$18.5 million in cash. The transaction was accounted for as the combination of companies under common control and has been reflected in the accompanying consolidated financial statements retroactively on a historical cost basis.

The book value of the net assets transferred was \$2.4 million. The excess of the purchase price over the historical cost of the net assets acquired of \$16.1 million has been reflected as a distribution to ON Semiconductor in the accompanying consolidated financial statements. Concurrent with this transaction, ON Semiconductor made a capital contribution to the Company equal to the amount of the purchase price.

Note 2: Liquidity

During the year ended December 31, 2003, ON Semiconductor incurred a net loss of \$166.7 million compared to net losses of \$141.9 and \$831.4 million in 2002 and 2001, respectively. ON Semiconductor’s net results included restructuring, asset impairments and other, net of \$61.2 million, \$27.7 million and \$150.4 million in 2003, 2002 and 2001, respectively, as well as interest expense of \$151.1, \$152.5 million and \$143.6 million, respectively. ON Semiconductor’s operating activities provided cash of \$45.7 million in 2003 and \$46.4 million in 2002 and used cash of \$116.4 million in 2001.

At December 31, 2003, ON Semiconductor had \$186.6 million in cash and cash equivalents, net working capital of \$212.5 million, term or revolving debt of \$1,302.9 million and a stockholders’ deficit of \$644.6 million. ON Semiconductor’s long-term debt includes \$320.1 million under its senior bank facilities; \$191.6 million (net of discount) of its 13% senior secured notes due 2010; \$292.6 million (net of discount) of its 12% senior secured notes due 2008; \$260.0 million of its 12% senior subordinated notes due 2009; \$139.9 million under a 10% junior subordinated note payable to Motorola due 2011; \$48.0 million under a loan facility with a Chinese bank due 2013; \$24.3 million under a note payable to a Japanese bank due 2010; \$20.0 million under a loan facility with a Chinese bank due 2007; and \$6.4 million under a capital lease obligations. ON Semiconductor was in compliance with all of the covenants contained in its various debt agreements at December 31, 2003 and expects to remain in compliance over the next twelve months.

In February 2004, ON Semiconductor completed a public offering of common stock resulting in net proceeds of \$226.7 million. The net proceeds are expected to be used to redeem \$70.0 million principal amount

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

of ON Semiconductor's 13% senior secured notes due 2010 and \$105.0 million principal amount of the 12% senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes. The remaining proceeds will be used for general corporate purposes.

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

If ON Semiconductor fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to ON Semiconductor. Management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund ON Semiconductor's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2004. To the extent that results or events differ from ON Semiconductor's financial projections or business plans, the Company's liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

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

Cash Equivalents

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

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Inventories

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

Property, Plant and Equipment

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

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

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in ON Semiconductor's April 2000 acquisition of Cherry Semiconductor Corporation (Cherry). The Cherry goodwill was being amortized on a straight-line basis over its estimated useful life of ten years until January 1, 2002 when the Company adopted Statement of Financial Accounting Standards ("SFAS") 142, "Goodwill and Other Intangible Assets." The Company also acquired another intangible asset in the Cherry acquisition that until July 5, 2003 was being amortized on a straight-line basis over its estimated useful life. In the second quarter of 2003, that intangible asset was determined to be impaired and was written-off. See Note 5 "Restructuring, Asset Impairments and Other, net".

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

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the terms 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 \$34.7 million and \$33.7 million at December 31, 2003 and 2002, respectively.

Revenue Recognition

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

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

Research and Development Costs

Research and development costs are expensed as incurred.

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Stock-Based Compensation

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

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

	Year ended December 31,		
	2003	2002	2001
Net loss, as reported	\$(171.2)	\$(146.4)	\$(835.1)
Add: Stock-based employee compensation expense included in report net loss, net of related tax effects	0.1	4.5	3.7
Less: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(14.8)	(13.9)	(17.9)
Pro-forma net loss	(185.9)	(155.8)	(849.3)

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

<u>Employee Stock Options</u>	2003	2002	2001
Expected life (in years)	5	5	5
Risk-free interest rate	3.07%	4.09%	4.82%
Volatility	0.78	0.70	0.70
<u>Employee Stock Purchase Plan</u>	2003	2002	2001
Expected life (in years)	0.25	0.25	0.25
Risk-free interest rate	1.07%	1.71%	4.26%
Volatility	0.83	0.70	0.70

The weighted-average estimated fair value of employee stock options granted during 2003, 2002 and 2001 was \$1.50, \$1.85 and \$3.25 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during 2003, 2002 and 2001 was \$0.62, \$0.60 and \$1.24, respectively.

Income Taxes

Income taxes are accounted for using the asset and liability method and are determined on a separate return basis. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized.

In determining the amount of the valuation allowance, estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction are considered. If all or a portion of the remaining deferred tax assets will not be realized, the valuation allowance will be increased with a charge to income tax expense. Conversely, if the Company will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. In the fourth quarter of 2001, a valuation allowance was established for the majority of the Company's domestic deferred tax assets and a portion of the Company's foreign deferred tax assets. Additionally, throughout 2002 and 2003, no incremental domestic deferred tax benefits were recognized. The Company's ability to utilize its deferred tax assets and the continuing need for a related valuation allowance are monitored on an ongoing basis.

Foreign Currencies

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

Defined Benefit Plans

The Company maintains pension plans covering certain of its employees. For financial reporting purposes, net periodic pension costs are calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations, assumed rate of return on pension plan assets and assumed rate of compensation increases for plan employees. All of these assumptions are based upon management's judgement, considering all known trends and uncertainties. As described in Note 4, "Accounting Changes", the Company changed its method of accounting for net unrecognized actuarial gains or losses relating to its defined benefit pension obligations effective January 1, 2003.

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.

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Recent Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”. SFAS No 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not impact the Company’s financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity”. SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer that must be classified as liabilities and carried at liquidation value. Such freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase the issuer’s equity shares by transferring assets, and certain obligations to issue a variable number of shares. The Company’s adoption of the other provisions of SFAS No. 150 at the beginning of the third quarter of 2003 did not impact its financial condition or results of operations.

In the second quarter of 2003, the Company adopted FASB Interpretation No. 46 (“FIN No. 46), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51”. 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 adoption of FIN No. 46 did not impact the Company’s financial condition or results of operations.

In December 2003, the FASB issued SFAS No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits (revised 2003)”. SFAS No. 132 revises employers’ disclosures about pension plans and other postretirement benefit plans. It requires additional disclosures to those in the original SFAS No. 132 about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132, which also requires new disclosures for interim periods beginning after December 15, 2003, is effective for fiscal years ending after December 15, 2003 except for certain disclosures associated with foreign plans which are required for years ended after June 15, 2004. The Company adopted this Statement for the year ended December 31, 2003 and has included the required disclosures in Note 10 “Employee Benefit Plans”.

Note 4: Accounting Changes

Defined Benefit Pension Obligations

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

The impact of this change for periods prior to January 1, 2003 was a charge of \$21.5 million, both before and after income taxes, and has been reflected as the cumulative effect of a change in accounting principle in the Company’s consolidated statement of operations for the year ended December 31, 2003. The effect of the change

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on the year ended December 31, 2003 was to decrease the loss before cumulative effect of accounting change by \$5.5 million, both before and after income taxes, and to increase the net loss by \$16.0 million, both before and after income taxes. Absent the accounting change, the \$21.5 million of net unrecognized actuarial losses at December 31, 2002 would have been recognized as an operating expense in future periods.

The estimated pro forma effects of the accounting change on the Company's results of operations for the years ended December 31, 2002 and 2001 were as follows (in millions):

	Year Ended December 31,	
	2002	2001
As reported:		
Net loss before cumulative effect of accounting change	\$(146.4)	\$(718.7)
Net loss	\$(146.4)	\$(835.1)
Pro forma amounts reflecting the accounting change applied retroactively:		
Net loss before cumulative effect of accounting change	\$(150.8)	\$(728.9)
Net loss	\$(150.8)	\$(845.3)

Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS 142 prohibits the amortization of goodwill and indefinite-lived intangible assets and requires that such assets be tested for impairment on an annual basis or whenever events or circumstances indicate that the related carrying value may be impaired, requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and removes the forty-year limitation on the amortization period of intangible assets that have finite lives.

The Company's goodwill at January 1, 2002 totaled \$77.3 million and related to the acquisition of Cherry in April 2000. As a result of the adoption of SFAS No. 142, the Company discontinued amortization of the Cherry goodwill at the beginning of 2002. The Company has no other indefinite-lived intangible assets.

The following table, with comparable actual amounts for the year ended December 31, 2001, sets forth the pro forma effects on net loss assuming that the Company had adopted the provisions of SFAS No. 142 as of January 1, 2001:

	As reported 2001	Pro forma 2001
Reported net loss before cumulative effect of accounting change	\$ (718.7)	\$ (718.7)
Add back: Goodwill amortization, net of tax		10.7
Pro forma net loss before cumulative effect of accounting change		\$ (708.0)
Reported net loss	\$ (835.1)	\$ (835.1)
Add back: Goodwill amortization, net of tax		10.7
Pro forma net loss		\$ (824.4)

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Revenue Recognition

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

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

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

Derivatives Instruments and Hedging Activities

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

Upon adoption, the Company recorded a charge of approximately \$5.7 million to accumulated other comprehensive income (loss). This charge consisted of an approximate \$2.2 million adjustment to record the Company's interest rate swaps in the consolidated balance sheet at their estimated fair values as well as the write-off of an approximate \$3.5 million deferred charge relating to the payment made in December 2000 for the early termination of an interest rate protection agreement relating to a portion of the amounts outstanding under the Company's senior bank facilities.

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

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Note 5: Restructuring, Asset Impairments and Other, Net

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

	Reserve Balance at December 31, 2002	2003 Charges	2003 Usage	2003 Adjustments	Reserve Balance at December 31, 2003
December 2003					
Cash employee separation charges	\$ —	\$ 5.2	—	—	\$ 5.2
Cash exit costs	—	0.4	—	—	0.4
Non-cash impairment of property, plant and equipment	—	20.2	(20.2)	—	—
Write-down of long-term receivable and investment	—	4.3	(4.3)	—	—
	<u>—</u>				<u>5.6</u>
	<u>\$ —</u>				<u>5.6</u>
September 2003					
Cash employee separation charges	—	1.4	(0.9)	—	0.5
June 2003					
Cash employee separation charges	—	0.4	(0.4)	—	—
Cash exit costs	—	1.4	(1.4)	—	—
Non-cash impairment of property, plant and equipment	—	10.5	(10.5)	—	—
Non-cash impairment of intangible asset	—	20.8	(20.8)	—	—
Write down of investment	—	0.5	(0.5)	—	—
	<u>—</u>				<u>—</u>
	<u>—</u>				<u>—</u>
December 2002					
Cash employee separation charges	9.9	—	(6.7)	(0.1)	3.1
Cash exit costs	1.8	—	(1.1)	—	0.7
	<u>11.7</u>				<u>3.8</u>
June 2002					
Cash employee separation charges	0.4	—	(0.4)	—	—
Cash exit costs	1.5	—	—	1.0	2.5
	<u>1.9</u>				<u>2.5</u>
March 2002					
Cash employee separation charges	3.0	—	(2.8)	0.1	0.3
December 2001					
Cash employee separation charges	0.1	—	—	(0.1)	—
June 2001					
Cash exit costs	2.8	—	(2.2)	(0.2)	0.4
	<u>\$ 19.5</u>	<u>\$ 65.1</u>	<u>\$(72.2)</u>	<u>\$ 0.7</u>	<u>\$ 13.1</u>

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	Reserve Balance at December 31, 2001	2002 Charges	2002 Usage	2002 Adjustments	Reserve Balance at December 31, 2002
December 2002					
Cash employee separations charges	\$ —	\$ 10.1	\$ (0.2)	\$ —	\$ 9.9
Cash exit costs	—	1.8	—	—	1.8
Non-cash impairment of property, plant and equipment	—	1.0	(1.0)	—	—
	—				11.7
June 2002					
Cash employee separations charges	—	2.9	(2.5)	—	0.4
Cash exit costs	—	2.8	(1.3)	—	1.5
Non-cash impairment of property, plant and equipment	—	8.4	(8.4)	—	—
Non-cash stock compensation charges	—	1.0	(1.0)	—	—
	—				1.9
March 2002					
Cash employee separations charges	—	7.0	(4.3)	0.3	3.0
Non-cash stock compensation charges	—	0.2	(0.2)	—	—
	—				3.0
December 2001					
Cash employee separations charges	2.2	—	(2.1)	—	0.1
June 2001					
Cash employee separations charges	6.8	—	(5.7)	(1.1)	—
Cash exit costs	10.0	—	(8.1)	0.9	2.8
	16.8				2.8
March 2001					
Cash employee separations charges	0.8	—	(0.7)	(0.1)	—
	\$ 19.8	\$ 35.2	\$ (35.5)	\$ (0.0)	\$ 19.5

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	Reserve Balance at December 31, 2000	2001 Charges	2001 Usage	Reserve Balance at December 31, 2001
Prior restructuring programs	\$ 0.7	\$ —	\$ (0.7)	\$ —
December 2001				
Cash employee separations charges	—	4.0	(1.8)	2.2
Non-cash impairment of property, plant and equipment	—	11.1	(11.1)	—
Non-cash stock compensation and pension charges	—	1.5	(1.5)	—
	—			2.2
June 2001				
Cash employee separations charges	—	36.4	(29.6)	6.8
Cash exit costs	—	10.0	—	10.0
Non-cash impairment of property, plant and equipment	—	42.2	(42.2)	—
Non-cash stock compensation and pension charges	—	7.2	(7.2)	—
	—			16.8
March 2001				
Cash employee separations charges	—	31.3	(30.5)	0.8
Non-cash impairment of property, plant and equipment	—	2.9	(2.9)	—
	—			0.8
	\$ 0.7	\$ 146.6	\$ (127.5)	\$ 19.8

As of December 31, 2003, the reserve balance of \$13.1 million was comprised of employee severance charges of \$9.1 million and exit costs of \$4.0 million. A reconciliation of the activity in the tables above to the "Restructuring, asset impairments and other, net" caption on the statement of operations for the years ended December 31, 2003, 2002 and 2001, respectively (in millions):

	2003
2003 Charges	\$ 65.1
Less: Adjustments to prior year charges	0.7
Less: Gain on sale of Guadalajara facility*	(4.6)
	\$ 61.2
	2002
2002 Charges	\$ 35.2
Plus: Charges related to Guadalajara (June 2001) and France (March 2002)	1.9
Less: Reserves released during the period	(1.9)
Plus: Charges related to the termination of executive officers (December 2002)*	4.9
Less: Motorola settlement gain*	(12.4)
	\$ 27.7
	2001
2001 Charges	\$ 146.6
Plus: Charges related to the termination of an executive officer (March 2001)*	3.8
	\$ 150.4

* Not included in above tables

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December 2003

In December 2003, the Company recorded \$30.1 million in restructuring, asset impairment and other charges. These charges included \$5.2 million to cover employee separation costs, \$0.4 million of lease and contract termination exit costs and \$20.2 million of asset impairments associated with the Company's restructuring programs, and \$4.3 million of other charges associated with the write-down of certain other assets. The Company also recorded a \$0.2 million reversal of amounts previously recorded in connection with the Company's June 2001 and December 2002 restructuring programs described below.

The employee separation costs of \$5.2 million reflect the phase-out of manufacturing operations of the Company's East Greenwich, Rhode Island facility, the shutdown of the Company's back-end manufacturing lines in Roznov, Czech Republic, and further reductions in general and administrative staffing levels in the United States and Western Europe. The employee separation charges for East Greenwich totaled \$3.8 million for approximately 325 employees. The Czech Republic employee separation charge of \$0.5 million represents a portion of the total severance charges for approximately 460 employees. The additional severance cost of approximately \$1.6 related to the Czech Republic will be recognized ratably over 2004. The remaining \$0.9 million charge relates to severance benefits for approximately 10 employees in general and administrative functions in the United States and Europe. All terminations and associated severance payments related to this charge are expected to be completed by the second quarter of 2005.

The lease and contract termination costs of \$0.4 million reflect costs incurred in connection with the consolidation of sales, distribution and administrative facilities in North America.

The \$20.2 million of asset impairments include \$15.3 million associated with the East Greenwich, Rhode Island facility and \$4.9 million associated with the closure of the back-end manufacturing lines in Roznov, Czech Republic. The Company measured the amount of each asset impairment by comparing the carrying values of the respective assets to their related estimated fair values. The Company estimated future net cash flows for the period of continuing manufacturing activities (December 2004 for East Greenwich and Roznov) for each group of assets using price, volume, cost and salvage value assumptions that management considered reasonable in the circumstances. The impairment charges were recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value.

The \$4.3 million of other charges consist of the \$2.3 million write-off of a long-term note receivable and a \$2.0 million write-down of a cost basis investment. The note receivable was created in connection with the sale of certain equipment in 2001 and was fully reserved during the fourth quarter of 2003 when the counterparty defaulted on the obligation. We continue to attempt to collect this note. The cost basis investment relates to a semiconductor start-up company that was written down in the fourth quarter of 2003 based on that company's operating performance and liquidity concerns.

September 2003

In September 2003, the Company recorded a \$4.6 million gain in connection with the sale of its Guadalajara, Mexico facility. This gain was partially offset by charges totaling \$1.4 million associated with worldwide restructuring programs to cover employee separation costs relating to the termination of approximately 36 employees, reflecting further reductions in manufacturing and general and administrative personnel in France, Germany, the Czech Republic, Hong Kong and the United States. The Company also recorded a \$0.2 million reversal of amounts previously recorded in connection with the Company's June 2001 and December 2001 restructuring programs as described below and an additional \$0.1 million charge associated

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with its March 2002 restructuring program. All impacted employees have been terminated, and the Company currently expects to pay out the remaining employee severance costs by September 2004.

June 2003

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

The employee separation costs reflected further reductions in general and administrative staffing levels primarily in the United States. All impacted employees have been terminated, and the Company has made all severance payments.

The lease and contract termination exit costs relate to the exit of certain sales and administrative offices and the termination of other purchase and supply agreements. All associated exit costs have been paid.

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

The Company also recorded non-cash impairment charges totaling \$21.3 million including \$20.8 million relating to the write-off of the developed technology intangible asset associated with the Cherry acquisition and a \$0.5 million write-off of a cost basis investment. Sustained price declines in certain product lines triggered an impairment analysis of the carrying value of the developed technology intangible asset and resulted in the Company recording an impairment charge of \$20.8 million. The Company measured the amount of the impairment charge by comparing the carrying value of the developed technology to its estimated fair value. The Company estimated future net cash flows associated with the developed technology intangible asset using price, volume and cost assumptions that management considered to be reasonable in the circumstances. The Company will no longer incur amortization expense of approximately \$12.0 million per year related to this intangible asset.

December 2002

In December 2002, the Company recorded \$12.6 million (net of a \$0.6 adjustment) restructuring, asset impairments and other charges including \$10.1 million for employee separation costs relating the termination of approximately 300 employees, \$1.0 million of asset impairments and approximately \$1.8 million in expected lease termination and other exit costs associated with the decommissioning of certain assets. The headcount reductions began in the first quarter of 2003 and are expected to be completed by June 2004 and impacted both manufacturing and non-manufacturing personnel mainly in the United States. The asset impairments relate to the closure of a production line and an abandoned capital equipment project in the Czech Republic. The charge also included an additional \$0.3 million reserve related to a headcount reduction in Toulouse, France that was part of the March 2002 restructuring program. The \$0.6 adjustment related to release of previous reserves associated with our March 2001 and June 2001 restructuring programs due the Company's analysis of estimated costs to complete those programs. At December 31, 2003, 56 employees included under this program remain and are

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expected to be terminated in 2004 and the related unpaid severance payments of \$3.1 million are expected to be paid by June 2004. At December 31, 2003 the remaining liability relating to exit costs was \$0.7 million and is expected to be paid out by June 2005.

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

June 2002

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

The employee separation costs reflected further reductions in general and administrative staffing levels and included \$1.0 million of non-cash stock compensation charges associated with the modification of stock options for certain terminated employees. All impacted employees have been terminated and the related severance costs were paid during 2003.

As a result of continuing economic conditions, the Company determined that certain manufacturing equipment purchase and supply agreements were no longer economical to complete and recorded estimated termination charges of \$2.8 million during the second quarter of 2002. As of December 31, 2003, the Company had settled certain of these obligations with payments of \$1.3 million. In June 2003, the Company recorded an additional \$1.0 million associated with a supply contract that was terminated as part of the June 2002 restructuring program. At December 31, 2003, all employees had been terminated under the restructuring program. The Company is currently in discussions to settle its remaining obligations.

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

During the second quarter of 2002, the Company reached a settlement of various contractual issues with Motorola in exchange for a cash payment from Motorola of \$10.6 million which resulted in a related gain of \$12.4 million (see Note 15 "Related Party Transactions" for further details of the Motorola settlement). The Company also recorded a \$1.2 million reversal of amounts previously provided in connection with the June 2001 restructuring program as a result of favorable negotiated contract termination costs.

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March 2002

In March 2002, the Company recorded a \$7.1 million (net of a \$0.1 million adjustment) charge to cover employee separation costs relating to the termination of approximately 72 employees. Approximately \$5.0 million of this charge is attributable to employee terminations resulting from the Company's decision to relocate its European administrative functions from Toulouse, France to Roznov, Czech Republic and Piestany, Slovakia. The relocation of these functions was completed in 2003. The remaining \$2.2 million relates to reductions in selling, general and administrative personnel primarily in the U.S. The March 2002 charge also included \$0.2 million of non-cash employee stock compensation expense associated with the modification of stock options for certain terminated employees. As discussed previously, the Company recorded an additional \$0.3 million in employee separation costs relating to the relocation of the administrative functions in Toulouse, France during the fourth quarter of 2002 and \$0.1 million during 2003 as a result of its reevaluation of remaining costs to be incurred. At December 31, 2003, all employees have been terminated under this program. At December 31, 2003 the remaining liability relating to this restructuring was \$0.3 million and will be paid by June 2004.

December 2001

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

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

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

June 2001

In June 2001, the Company recorded charges totaling \$95.8 million for costs associated with its worldwide restructuring programs. These programs were in response to rapidly changing economic circumstances requiring the Company to rationalize its manufacturing and distribution operations to meet declining customer demand. The programs included the phasing out of manufacturing operations at the Company's Guadalajara, Mexico facility by June 2002, transferring certain manufacturing activities performed at the Company's Aizu, Japan and Seremban, Malaysia facilities to other Company-owned facilities or to third party contractors by June 2002 and December 2001, respectively, and the shutdown of the Company's Hong Kong Distribution Center and the transfer of related functions to its Singapore Distribution Center. The charge included \$36.4 million to cover employee separation costs associated with the termination of approximately 3,200 employees, \$1.1 million of non-cash charges associated with the modification of stock options for certain terminated employees and \$6.1 million for additional pension charges related to terminated employees. (The additional pension charge is reflected in the Company's accrued pension liability in the consolidated balance sheet). As of December 31, 2002, all employees had been terminated under the June 2001 restructuring program. Manufacturing operations in Guadalajara ceased in June 2002 as originally planned; however, various administrative activities were not completed until 2003.

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The planned discontinuation of manufacturing activities triggered an impairment analysis of the carrying value of the related assets and resulted in the Company recording asset impairment charges totaling \$42.2 million. This charge included \$31.6 million related to the Guadalajara manufacturing facility, \$4.2 million related to the Aizu, Japan 4-inch wafer fabrication line and \$2.2 million related to the Seremban assembly and test facility. The Company measured the amount of each asset impairment by comparing the carrying value of the respective assets to the related estimated fair value. The Company estimated future net cash flows for the period of continuing manufacturing activities (June 2002 for Guadalajara and Aizu, December 31, 2001 for Seremban) for each group of assets using price, volume, cost and salvage value assumptions that management considered to be reasonable in the circumstances. The impairment charges were recorded for the amount by which the carrying value of the respective assets exceeded their estimated fair value. The related assets have been sold to third parties at amounts that approximated their estimated fair values, were transferred to other manufacturing facilities at their previously existing carrying values or are currently held for sale. The charge also included \$4.2 million for the write-off of assets that will no longer be used by the Company as a result of the June 2001 restructuring program. As previously mentioned, the Company sold the Guadalajara, Mexico facility in the third quarter of 2003.

The June 2001 charge also included \$10.0 million to cover certain exit costs relating to facility closure and contract terminations including \$2.8 million for expected facility clean up activities, \$1.0 million for equipment disposal fees, \$2.0 million for equipment purchase cancellations and \$4.2 million for other contract cancellations. As discussed previously, the Company recorded an additional \$1.0 million in exit costs and \$0.6 million in employee separation costs relating to the Guadalajara manufacturing facility during the second quarter of 2002 as a result of its reevaluation of remaining costs to be incurred with respect to the closure of that facility. As of December 31, 2003 the remaining liability relating to this restructuring program was \$0.4 million of miscellaneous exit costs which are expected to be paid by April 2004.

March 2001

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 6: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31,	
	2003	2002
Receivables, net:		
Accounts receivable	\$ 134.3	\$ 113.8
Less: Allowance for doubtful accounts	(2.4)	(1.9)
	<u>\$ 131.9</u>	<u>\$ 111.9</u>
Inventories, net:		
Raw materials	\$ 15.2	\$ 15.5
Work in process	107.8	106.3
Finished goods	87.0	81.9
Total inventory	<u>210.0</u>	<u>203.7</u>
Less: Inventory reserves	(42.4)	(43.7)
	<u>\$ 167.6</u>	<u>\$ 160.0</u>
Property, plant and equipment, net:		
Land	\$ 12.8	\$ 11.7
Buildings	325.8	449.6
Machinery and equipment	874.0	793.3
Total property, plant and equipment	<u>1,212.6</u>	<u>1,254.6</u>
Less: Accumulated depreciation	(832.7)	(800.5)
	<u>\$ 379.9</u>	<u>\$ 454.1</u>
Goodwill, net:		
Goodwill	\$ 95.7	\$ 95.7
Less: Accumulated amortization	(18.4)	(18.4)
	<u>\$ 77.3</u>	<u>\$ 77.3</u>
Intangible asset, net:		
Developed technology	\$ —	\$ 59.3
Less: Accumulated amortization	—	(32.6)
	<u>\$ —</u>	<u>\$ 26.7</u>
Accrued expenses:		
Accrued payroll	\$ 29.2	\$ 27.5
Sales related reserves	17.1	14.1
Restructuring reserves	13.1	19.5
Other	29.4	38.8
	<u>\$ 88.8</u>	<u>\$ 99.9</u>
Other comprehensive loss:		
Foreign currency translation adjustments	\$ 1.7	\$ (2.0)
Additional minimum pension liability	—	(19.6)
Net unrealized losses and adjustments related to cash flow hedges	(5.3)	(12.1)
Unrealized losses on deferred compensation plan investments	(0.8)	(0.6)
	<u>\$ (4.4)</u>	<u>\$ (34.3)</u>

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Depreciation expense for property, plant and equipment totaled \$101.1 million, \$115.2 million and \$135.0 million for 2003, 2002 and 2001, respectively. Amortization expense related to the developed technology intangible asset totaled \$5.9, \$11.9, and \$11.6 million in 2003, 2002 and 2001, respectively.

The activity related to the Company's allowance for doubtful accounts, inventory reserves, allowance for deferred tax assets and warranty reserves for 2001, 2002, and 2003 follows:

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions/ Writeoffs	Balance at End of Period
<i>Allowance for doubtful accounts</i>					
Year ended December 31, 2001	\$ 2.5	\$ 0.5	\$ —	\$ 1.1	\$ 1.9
Year ended December 31, 2002	\$ 1.9	\$ 0.3	\$ —	\$ 0.3	\$ 1.9
Year ended December 31, 2003	\$ 1.9	\$ 0.5	\$ —	\$ —	\$ 2.4
<i>Inventory reserves</i>					
Year ended December 31, 2001	\$ 22.5	\$ 50.9	\$ —	\$ 23.2	\$ 50.2
Year ended December 31, 2002	\$ 50.2	\$ 12.1	\$ —	\$ 18.9	\$ 43.4
Year ended December 31, 2003	\$ 43.4	\$ 13.0	\$ —	\$ 14.0	\$ 42.4
<i>Allowance for deferred tax assets</i>					
Year ended December 31, 2001	\$ —	\$ 366.8	\$ 83.8(1)	\$ —	\$ 450.6
Year ended December 31, 2002	\$ 450.6	\$ 1.0	\$ 112.8(2)	\$ —	\$ 564.4
Year ended December 31, 2003	\$ 564.4	\$ —	\$ 71.8	\$ —	\$ 636.2
<i>Warranty reserves</i>					
Year ended December 31, 2001	\$ 3.5	\$ 0.1	\$ —	\$ 0.6	\$ 3.0
Year ended December 31, 2002	\$ 3.0	\$ 0.1	\$ —	\$ 0.4	\$ 2.7
Year ended December 31, 2003	\$ 2.7	\$ —	\$ (0.9)	\$ 0.2	\$ 1.6

(1) Represents the valuation allowance related to the 2001 portion of the net operating loss that was not recognized during the year.

(2) Represents the valuation allowance related to the 2002 portion of the net operating loss that was not recognized during the year.

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Note 7: Long-Term Debt

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

	December 31, 2003		December 31, 2002	
	Interest Rate	Balance	Interest Rate	Balance
Senior Bank Facilities:				
Tranche A	—%	\$ —	6.4375%	\$ 6.6
Tranche B	—	—	6.4375	209.9
Tranche C	—	—	6.4375	226.0
Tranche D	—	—	6.4375	134.1
Tranche E	4.4375	320.1	—	—
Revolver	—	—	6.4375	125.0
		<u>320.1</u>		<u>701.6</u>
First-Lien Senior Secured Notes due 2010, 13% interest payable semi-annually, net of debt discount of \$8.4		191.6		—
Second-Lien Senior Secured Notes due 2008, 13% interest effective February 2003 payable semi-annually, net of debt discount of \$7.4 and \$8.6		292.6		291.4
12% Senior Subordinated Notes due 2009, interest payable semi-annually		260.0		260.0
10% Junior Subordinated Note to Motorola due 2011, interest compounded semi-annually, payable at maturity		139.9		126.9
2.3% Note payable to Japanese bank due 2010 interest payable quarterly		24.3		23.3
Capital lease obligation		6.4		—
		<u>1,234.9</u>		<u>1,403.2</u>
Less: Current maturities		(6.6)		(9.3)
		<u>\$ 1,228.3</u>		<u>\$ 1,393.9</u>

Senior Bank Facilities

Borrowings under the senior bank facilities, which bear interest at rates selected by the Company based on either LIBOR or an alternative base rate, as defined, plus an interest rate spread, amortize within three to five years. As of December 31, 2003, after consideration of the amendments to the credit agreement described below, the senior bank facilities contained a \$25.0 million revolving line of credit. Letters of credit totaling \$12.6 million were outstanding against the line of credit at December 31, 2003 leaving \$12.4 million of availability at that date. As described in Note 11, the Company hedges a portion of the interest rate risk associated with the senior bank facilities.

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

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to outstanding borrowings (“supplemental interest”), and, revise certain mandatory prepayment provisions contained in the original agreement.

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

In connection with the issuance of the First-Lien Notes described below, the Company amended its senior bank facilities effective as of February 14, 2003 to, among other things, permit the issuance of the First-Lien Notes, eliminate the interest expense and leverage coverage ratio requirements, reduce the minimum EBITDA level covenant (as defined in the credit agreement) to \$140.0 million for any four consecutive fiscal quarters until the final maturity of the senior bank facilities, reduce permitted annual capital expenditures to \$100.0 million (subject to increases in certain circumstances), permit the redemption of up to 35% of the First-Lien Notes with net proceeds of any equity offerings on or prior to March 15, 2006 and to convert \$62.5 million of the amounts outstanding under the revolving credit facility to a new Tranche R term loan.

In September 2003, the Company amended its senior bank facilities to, among other things:

- Provide the Company with additional Tranche D term loans under its senior bank facilities aggregating \$100 million, the entire amount of which was borrowed simultaneously with the completion of the equity offering described below;
- Permit the Company to apply the net proceeds from equity offerings by it or any of its subsidiaries (including the equity offering described in Note 2) and borrowings under the additional Tranche D term loans to prepay scheduled principal installments of all term loan borrowings outstanding under its senior bank facilities in chronological order;
- Reduce from 75% to 50% the percentage of net proceeds from future equity offerings by the Company or any of its subsidiaries that is required to be applied to prepay term loan borrowings outstanding under its senior bank facilities; and,
- Provide the Company with a new \$25 million revolving facility that will mature on August 4, 2006, provide for the issuance of letters of credit in currencies other than U.S. dollars that are to be specified and, in all other respects, have terms substantially similar to those of its existing revolving facility.

The proceeds of the borrowing under the additional Tranche D term loans (which were issued at a discount of \$0.5 million) were used to prepay senior credit facility borrowings as described above. Excluding this discount, costs incurred in connection with this debt refinancing totaled \$3.8 million, of which \$0.4 million was paid to third parties. Such third-party costs were expensed as incurred and included in loss on debt prepayment in the Company’s consolidated statement of operations for the year ended December 31, 2003. The remaining \$3.4 million of debt refinancing costs were capitalized and are being amortized using the effective interest method.

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On September 23, 2003 ON Semiconductor completed a public offering of common stock registered pursuant to its shelf registration statement originally filed with the Securities and Exchange Commission on April 24, 2002 (as amended on March 14, 2003). In connection with this offering, ON Semiconductor issued approximately 37.0 million shares (including approximately 2.2 million shares issued in connection with the underwriters' exercise of their option to cover over-allotments) at a price of \$4.50 per share. The net proceeds from this offering were \$156.8 million after deducting the underwriting discount of \$8.2 million (\$0.225 per share) and estimated offering expenses of \$1.4 million (including \$0.4 million that were unpaid as of December 31, 2003). ON Semiconductor contributed these proceeds to the Company, which were used to prepay \$152.7 million of its senior bank facilities and to cover \$3.8 million of costs associated with the amendment to its senior bank facilities. In connection with this prepayment, the Company wrote off \$2.5 million of debt issuance costs.

In November 2003, the Company refinanced \$368.5 million of term loans under its senior bank facilities. The Company replaced its Tranche B, Tranche C and Tranche D term loan facilities under its senior bank facilities with a single new Tranche E term loan facility with terms, other than the interest rate, that are identical to those of the Tranche D term loan facility. The Company also reduced the interest rate on its term loans by 0.75% per annum. Costs incurred in connection with this refinancing totaled \$1.0 million, of which \$0.2 million which were expensed as incurred while the remaining \$0.8 million of such costs were capitalized and are being amortized using the effective interest method

In December 2003, the Company refinanced approximately \$48 million of the term loans under its senior bank facilities with the proceeds from the repayment of a note receivable from an affiliate.

The Company was in compliance with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2003. Management believes that the Company will be able to comply with the various covenants and other requirements contained in its senior bank facilities, as amended, through December 31, 2004.

First-Lien Notes

On March 3, 2003, ON Semiconductor and SCI LLC, (collectively, the "Issuers") issued \$200.0 million principal amount of First-Lien Notes in a private offering that was exempt from the registration requirements of the federal securities laws. The First-Lien Notes, which are callable after four years, were issued at 95.467% of par value and generated net proceeds of approximately \$180.9 million after taking into consideration the discount and the payment of issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company's senior bank facilities, including \$25.0 million relating to the Company's revolving credit facility. In connection with the prepayment, the Company wrote off \$3.5 million of debt issuance costs in the first quarter of 2003. Interest accrues on the First-Lien Notes at a rate of 12% per annum. Interest on First-Lien Notes is payable semi-annually in March and September. The First-Lien Notes will mature on March 15, 2010.

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

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

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Second-Lien Notes

On May 6, 2002, the Issuers issued \$300.0 million principal amount of Second-Lien Notes in a private offering that was exempt from the registration requirements of the federal securities laws. The Second-Lien Notes, which are callable after four years, were issued at 96.902% of par value and generated net proceeds of \$278.6 million after such discount and the payment of issuance costs. The net proceeds were used to prepay a portion of the amounts outstanding under the Company's senior bank facilities. In connection with this prepayment, the Company wrote off \$6.5 million of debt issuance costs in the second quarter of 2002. Because the amount outstanding under the senior bank facilities was reduced below \$750.0 million, supplemental interest charges under the credit agreement relating to the senior bank facilities were reduced from 3.0% to 1.0%. The Company exercised its option to terminate the supplemental interest charges by paying the entire accrued balance of supplemental interest charges during the first quarter of 2003. Interest accrues on the Second-Lien Notes at the rate of 12% per annum until February 6, 2003, when the related annual interest increased to 13%. Interest on the Second-Lien Notes is payable semi-annually in May and November in cash. The Second-Lien Notes will mature on May 15, 2008.

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

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

Senior Subordinated Notes

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

Japanese Loan

In 2000, the Company's Japanese subsidiary entered into a yen-denominated note agreement with a Japanese bank to finance the expansion of its manufacturing facilities. The loan, which had a balance of \$24.3 million at December 31, 2003 (based on the yen-to-dollar exchange rate in effect at that date), bears interest at an annual rate of 2.25% and requires semi-annual principal and interest payments through September 2010 of approximately \$1.9 million (based on the yen-to-dollar exchange rate at December 31, 2003.) The note is unsecured, however, the bank has rights under the agreement to obtain collateral in certain circumstances.

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Annual maturities relating to the Company's long-term debt as of December 31, 2003 are as follows (in millions):

	Actual Maturities
2004	\$ 6.6
2005	6.6
2006	113.7
2007	215.5
2008	296.5
Thereafter	596.0
Total	\$ 1,234.9

Note 8: Note Receivable from Affiliates

In connection with the Recapitalization, the Company loaned to Leshan, an affiliated company, \$58.3 million to refinance third-party non-recourse loans. During 2001, the Company loaned Leshan an additional \$5.0 million to finance facility expansion. During 2003, Leshan repaid the \$63.3 million note receivable.

Note 9: Income Taxes

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

	Year Ended December 31,		
	2003	2002	2001
United States	\$(190.0)	\$(233.2)	\$(193.8)
Foreign	45.1	95.6	(184.7)
	\$(144.9)	\$(137.6)	\$(378.5)

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

	Year Ended December 31,		
	2003	2002	2001
Current			
Federal	\$ 0.2	\$ —	\$ (19.9)
State and local	(0.1)	0.1	0.5
Foreign	6.1	2.3	6.6
	6.2	2.4	(12.8)
Deferred			
Federal	—	—	315.8
State and local	—	—	39.6
Foreign	0.6	6.4	(0.3)
	0.6	6.4	355.1
	\$ 6.8	\$ 8.8	\$ 342.3

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

	Year Ended December 31,		
	2003	2002	2001
U.S. federal statutory rate	(35.0)%	(35.0)%	(35.0)%
Increase (decrease) resulting from:			
State and local taxes, net of federal tax benefit	(8.4)	(8.7)	(3.4)
Foreign withholding taxes	0.4	1.2	1.5
Foreign rate differential	(9.8)	(22.5)	11.2
Change in valuation allowance	60.2	69.3	116.0
Other	(2.7)	2.1	0.1
	<u>4.7%</u>	<u>6.4%</u>	<u>90.4%</u>

Deferred tax assets are as follows (in millions):

	Year Ended December 31,	
	2003	2002
Tax-deductible goodwill	\$ 220.7	\$ 235.2
Reserves and accruals	23.0	24.3
Inventories	13.7	15.1
Property, plant and equipment	26.0	16.2
Net operating loss and tax credit carryforwards	348.9	259.6
Other	7.9	18.2
Gross deferred tax assets	<u>640.2</u>	<u>568.6</u>
Valuation allowance	(636.2)	(564.4)
Net deferred tax asset	<u>\$ 4.0</u>	<u>\$ 4.2</u>

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

As of December 31, 2003, the Company's federal, state, and foreign net operating loss carryforwards were \$787.8 million, \$854.5 million, and \$22.9 million, respectively. If not utilized, these net operating losses will expire in varying amounts from 2006 through 2024. As a result of the recent sales of ON Semiconductor's common stock as discussed in Note 2 of the consolidated financial statements, the amount of federal net operating loss carryforwards that may be used in any one year will be limited.

Income taxes have not been provided on the undistributed earnings of certain foreign subsidiaries (approximately \$103.1 million at December 31, 2003) over which the Company has sufficient influence to control the distribution of such earnings and has determined that such earnings have been reinvested indefinitely. These earnings could become subject to federal income tax if they are remitted as dividends, if foreign earnings are loaned to any of the Company's domestic subsidiaries, or if the Company sells its investment in such subsidiaries. The Company estimates that repatriation of these foreign earnings would generate additional foreign withholding taxes of \$13.0 million.

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Other assets include \$6.0 million and \$3.0 million of French income tax refunds receivable and \$9.7 million and \$10.4 million of Malaysian income tax refunds receivable at December 31, 2003 and 2002, respectively.

The Company files income tax returns with the taxing authorities in the various jurisdictions in which it operates. Certain of these income tax returns remain subject to audit by the local tax authorities. Management believes that the resolution of any issues raised by such taxing authorities, including application of any related determinations to subsequent open years, will not have an adverse effect on the Company's financial condition or results of operations.

Note 10: Employee Benefit Plans

Defined Benefit Plans

Benefits under all of the Company's plans are valued utilizing the projected unit credit cost method. The Company's policy is to fund its defined benefit plans in accordance with the requirements and regulations of the Internal Revenue Code. The Company expects to contribute \$12.4 million in 2004 based on current assessment of the economic environment and projected benefit payments. The Company's measurement date for determining its defined benefit obligations for all plans is December 31 of each year.

In connection with the Recapitalization, the Company established the ON Semiconductor Pension Plan (the "Plan") that, after one year of service, covered most U.S. employees who were also formerly employees of Motorola. The Plan's benefit formula was dependent upon employee's earnings and years of service. In November 1999, the Plan was amended so that benefit accruals under the Plan will be discontinued effective December 31, 2004 for those employees whose combined age and years of service (in complete years) equaled or exceeded 65 at August 4, 1999 (the "Grandfathered Employees"). Benefit accruals under the plan for all other employees were discontinued effective December 31, 2000. Upon termination or retirement, employees may elect to receive their benefits in the form of either an annuity contract or a lump-sum distribution. In 2000, the ON Semiconductor Grandfathered Pension Plan (the "Grandfathered Plan") was established and the assets and accumulated benefits related to the Grandfathered Employees were transferred to the Grandfathered Plan. Effective April 15, 2001, the Company terminated the Plan in a standard termination, and substantially all accrued benefits were distributed to participants by December 31, 2001.

The assets of the Company's domestic plans were invested in fixed income securities at December 31, 2003 and 2002. This asset allocation is based on the anticipated timing of benefit payments, historical returns on similar assets and the current economic environment.

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

Certain of the Company's foreign subsidiaries provide retirement plans for substantially all of their employees. Such plans conform to local practice in terms of providing minimum benefits mandated by law, collective agreements or customary practice.

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As described in Note 4 “Accounting Changes,” the Company changed its method of accounting for unrecognized actuarial gains or losses to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. The Company will no longer defer actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company’s annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred.

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

	Year Ended December 31,								
	2003			2002			2001		
	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Service cost	\$ 1.7	\$ 1.3	\$ 3.0	\$ 1.8	\$ 1.3	\$ 3.1	\$ 2.1	\$ 2.2	\$ 4.3
Interest cost	2.4	0.9	3.3	3.0	0.8	3.8	2.4	1.6	4.0
Expected return on plan assets	(0.5)	(0.3)	(0.8)	(1.2)	(0.3)	(1.5)	(1.4)	(1.0)	(2.4)
Amortization of prior service cost	0.1	0.3	0.4	0.1	0.3	0.4	0.2	0.4	0.6
Settlement losses	—	—	—	0.4	—	0.4	9.9	2.3	12.2
Curtailment gain	—	—	—	—	(0.3)	(0.3)	—	—	—
Cumulative effect of accounting change	20.0	1.5	21.5	—	—	—	—	—	—
Other losses	(0.9)	—	(0.9)	4.9	—	4.9	0.3	—	0.3
Total net periodic pension cost	\$ 22.8	\$ 3.7	\$26.5	\$ 9.0	\$ 1.8	\$10.8	\$ 13.5	\$ 5.5	\$19.0
Weighted average assumption									
Discount rate	5.00%	4.40%		7.40%	5.08%		6.80%	5.76%	
Expected return on plan assets	2.50%	5.73%		8.50%	3.17%		8.50%	7.46%	
Rate of compensation increase	3.00%	3.17%		3.00%	3.77%		3.00%	3.77%	

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December 31,

	2003			2002		
	U.S. Pension Plans	Foreign Pension Plans	Total	U.S. Pension Plans	Foreign Pension Plans	Total
Change in projected benefit obligation						
Projected benefit obligation at the beginning of the year	\$ 46.8	\$ 19.3	\$ 66.1	\$ 41.5	\$ 22.3	\$ 63.8
Service cost	1.7	1.3	3.0	1.8	1.3	3.1
Interest cost	2.4	0.9	3.3	3.0	0.8	3.8
Net actuarial (gain) or loss	(1.1)	(0.1)	(1.2)	5.3	1.2	6.5
Curtailment gain	—	—	—	—	(0.3)	(0.3)
Benefits paid	(10.3)	(0.5)	(10.8)	(4.8)	(6.7)	(11.5)
Translation loss	—	1.7	1.7	—	0.7	0.7
Projected benefit obligation at the end of the year	\$ 39.5	\$ 22.6	\$ 62.1	\$ 46.8	\$ 19.3	\$ 66.1
Accumulated benefit obligation at the end of the year	\$ 38.8	\$ 18.7	\$ 57.5	\$ 45.7	\$ 16.0	\$ 61.7
Change in plan assets						
Fair value of plan assets at the beginning of the year	\$ 17.2	\$ 4.0	\$ 21.2	\$ 10.1	\$ 9.1	\$ 19.2
Actual return on plan assets	0.4	0.3	0.7	(1.1)	0.3	(0.8)
Benefits paid	(10.3)	(0.5)	(10.8)	(4.8)	(6.7)	(11.5)
Employer contributions	6.4	1.6	8.0	13.0	1.3	14.3
Translation gain	—	0.4	0.4	—	—	—
Fair value of plan assets at the end of the year	\$ 13.7	\$ 5.8	\$ 19.5	\$ 17.2	\$ 4.0	\$ 21.2
Net amount recognized						
Funded status	\$ (25.8)	\$ (16.8)	\$ (42.6)	\$ (29.6)	\$ (15.3)	\$ (44.9)
Unrecognized prior service cost	0.7	1.8	2.5	0.9	1.9	2.8
Unrecognized net actuarial loss	—	—	—	20.0	1.5	21.5
Net amount recognized	\$ (25.1)	\$ (15.0)	\$ (40.1)	\$ (8.7)	\$ (11.9)	\$ (20.6)
Amounts recognized in the statement of financial position						
Accrued benefit liability	\$ (10.9)	\$ (1.5)	\$ (12.4)	\$ (6.4)	\$ (2.0)	\$ (8.4)
Other long-term liabilities	(14.2)	(13.6)	(27.8)	(22.0)	(11.8)	(33.8)
Intangible asset	—	0.1	0.1	0.8	1.2	2.0
Accumulated other comprehensive income	—	—	—	18.9	0.7	19.6
Net amount recognized	\$ (25.1)	\$ (15.0)	\$ (40.1)	\$ (8.7)	\$ (11.9)	\$ (20.6)
Weighted average assumptions at the end of the year						
Discount rate	5.16%	4.29%		5.00%	4.40%	
Rate of compensation increases	3.00%	3.18%		3.00%	3.17%	

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$59.4 million, \$56.5 million, and \$17.7 million, respectively as of December 31, 2003 and \$63.8 million, \$56.8 million and \$19.6 million, respectively as of December 31, 2002.

The Company recognizes a minimum liability in its financial statements for its underfunded pension plans. The total accrued pension liability of \$40.2 million and \$42.2 million at December 31, 2003 and 2002,

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respectively, includes an additional minimum liability of \$0.1 million and \$21.6 million, respectively. The additional minimum liability was offset by a \$0.1 million intangible asset at December 31, 2003 compared with a \$2.0 million intangible asset and a \$19.6 increase to stockholders' deficit at December 31, 2002. The decrease in the additional minimum liability relates to the previously described accounting change.

Defined Contribution Plans

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

The Company recognized \$7.1 million of expense relating to matching contributions in 2000. Effective March 1, 2001 the Company amended the Savings Plan to make the matching contribution discretionary. A discretionary matching contribution was offered through April 2001, resulting in \$2.2 million of related expense in 2001. Effective January 1, 2002, the Company reinstated a discretionary matching contribution of 100% of the first 3% of employee contributions and, if certain financial goals are achieved, an additional 50% of the next 6% of employee contributions. The Company recognized \$3.3 million and \$4.0 million of expense relating to matching contributions in 2003 and 2002, respectively.

Certain foreign subsidiaries have defined contribution plans in which eligible employees participate. The Company recognized compensation expense of \$0.4 million, \$0.6 million and \$1.0 million relating to these plans for the years ended 2003, 2002 and 2001, respectively.

Note 11: Financial Instruments

Foreign Currencies

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

Prior to the fourth quarter of 2003, the Company's foreign subsidiaries provided forecasts of their foreign currency exposures. The Company then aggregated the forecasted amounts and entered into foreign currency contracts in order to create an offset to the underlying exposures. Losses or gains on the underlying cash flows or investments offset gains or losses on the financial instruments. Beginning in the fourth quarter of 2003, the Company modified its foreign exchange management program so that aggregate foreign currency exposures are compared against bank forecasted foreign currency exchange rates for the next three months. If the forecasted movements are unfavorable, the Company may decide to hedge all or a portion of the applicable foreign currency exposure. The Company primarily hedges existing assets and liabilities and cash flows associated with transactions currently on its balance sheet.

At December 31, 2003 and 2002, the Company had net outstanding foreign exchange contracts with notional amounts of \$3.0 million and \$19.5 million, respectively. Such contracts were obtained through financial institutions and were scheduled to mature within three months. Management believes that these financial

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instruments should not subject the Company to increased risks from foreign exchange movements because gains and losses on these contracts, should offset losses and gains on the assets, liabilities and transactions being hedged. The following schedule shows the Company's net foreign exchange positions in U.S. dollars as of December 31, 2003 and 2002 (in millions):

	December 31,	
	2003 Buy (Sell)	2002 Buy (Sell)
Japanese Yen	\$ —	\$ (16.3)
Czech Koruna	—	2.7
Euro	2.6	(11.4)
Philippine Peso	—	1.8
Mexican Peso	—	0.3
British Pound	—	5.0
Singapore Dollar	—	1.8
Swedish Krona	—	1.5
Taiwan Dollar	—	(4.9)
Slovakian Koruna	0.4	—
	<u>\$ 3.0</u>	<u>\$ (19.5)</u>

The Company is exposed to credit-related losses if counterparties to its foreign exchange contracts fail to perform their obligations. At December 31, 2003, the counterparties on the Company's foreign exchange contracts are two highly rated financial institutions and no credit-related losses are anticipated. Amounts payable or receivable under the contracts are included in other current assets or accrued expenses in the accompanying consolidated balance sheet. For 2003, 2002 and 2001, aggregate foreign currency transaction gains total \$4.7 million, \$0.1 million and \$1.2 million, respectively.

Interest Rate Agreements

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

Other

At December 31, 2003, the Company had no outstanding commodity derivatives, currency swaps or options relating to either its debt instruments or investments. The Company does not hedge the value of its equity investments in its subsidiaries or affiliated companies.

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Note 12: Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Notes Receivable from Affiliate

Due to the related party nature of the notes receivable from affiliate, it was not practicable to estimate their fair values due to the inability to obtain quoted market prices or determine current market rates for similar instruments. At December 31, 2002 the carrying value of the notes receivable from affiliate was \$63.3 million. The affiliate repaid the notes during 2003.

Long-term Debt

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

Foreign Currency Exchange Contracts

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

Interest Rate Agreements

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

The carrying amounts and fair values of the Company's financial instruments at December 31, 2003 and 2002 are as follows (in millions):

	December 31, 2003		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	(1,228.3)	(1,363.0)	(1,393.9)	(999.9)
Foreign currency exchange contracts	0.9	0.9	(0.3)	(0.3)
Interest rate agreements	(4.6)	(4.6)	(10.5)	(10.5)

Note 13: Stock Options

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

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

Generally, the options granted under both plans vest over a period of four years. Under the 1999 Plan, all outstanding options and under the 2000 Plan certain outstanding options vest automatically upon a change of control, as defined, provided the option holder is employed by the Company on the date of the change in control. Under the 2000 Plan, certain other outstanding options vest upon a change of control if the Board of Directors of ON Semiconductor, 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).

There was an aggregate of 10.4 million, 6.3 million and 4.7 million shares of common stock available for grant under the 1999 Plan and the 2000 Plan at December 31, 2003, 2002 and 2001, respectively.

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

	2003		2002		2001	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	22.9	\$ 4.55	18.2	\$ 5.87	13.8	\$ 6.49
Grants	6.0	2.16	8.0	3.00	8.4	5.26
Exercises	(1.9)	1.79	(0.7)	1.50	(0.5)	1.50
Cancellations	(4.4)	4.63	(2.6)	9.99	(3.5)	7.42
Outstanding at end of year	22.6	\$ 4.13	22.9	\$ 4.55	18.2	\$ 5.87
Exercisable at end of year	10.0	\$ 5.13	7.9	\$ 4.95	4.4	\$ 4.74
Weighted average fair value of options granted during the period		\$ 1.50		\$ 1.83		\$ 3.25

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The following tables summarize options outstanding and options exercisable at December 31, 2003 (shares in millions):

Outstanding Options			
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
\$ 1.03-\$ 1.50	8.9	7.52	\$ 1.38
\$ 1.65-\$ 2.71	2.5	8.87	1.91
\$ 3.06-\$ 4.96	5.4	8.07	3.50
\$ 5.19-\$ 9.03	4.2	7.88	6.21
\$10.88-\$21.38	1.6	6.41	15.77
Totals	22.6		4.13
Exercisable Options			
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
\$1.03-\$1.50	4.3	5.87	\$ 1.49
\$1.65-\$2.71	0.4	8.86	1.91
\$3.06-\$4.96	2.0	7.94	3.69
\$5.19-\$9.03	1.6	7.15	6.65
\$10.88-\$21.38	1.7	6.38	15.80
Totals	10.0		5.13

These options will expire if not exercised at specific dates through December 2013.

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

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

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

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The Company's employees participate in the 2000 Employee Stock Purchase Plan sponsored by ON Semiconductor. Subject to local legal requirements, each of the Company's full-time employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of ON Semiconductor's common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. Employees are limited to annual purchases of \$25,000 under this plan. In addition, during each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to \$6,250 divided by the fair market value of the stock on the first day of the offering period. During 2003, 2002 and 2001, employees purchased approximately 0.7 million, 1.0 million and 1.3 million shares under the plan. During 2001, shareholders voted to amend the 2000 Employee Stock Purchase Plan to increase the number of shares of ON Semiconductor's common stock issuable thereunder by 4.0 million (for an aggregate of 5.5 million shares).

Note 14: Commitments and Contingencies

Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of December 31, 2003 (in millions):

Year ending December 31,	
2004	\$ 8.4
2005	5.3
2006	2.1
2007	0.4
2008	0.2
Total	\$ 16.4

At December 31, 2003, the Company has a letter of credit totaling \$2.6 million to partially secure a service agreement with an information technology vendor. A downgrade in the Company's debt rating could trigger acceleration of remaining amounts due under this agreement, a portion of which would be satisfied by the letters of credit. The agreement expires in 2006. The letter of credit is renewable annually until 2005 when it expires.

Other Obligations

The Company also enters into various capital purchase obligations, supply agreements and service agreements with various vendors. The obligations for these type of agreements are as follows as of December 31, 2003:

	Total	2004	2005	2006	2007	2008	Thereafter
Capital purchase obligations	\$ 7.4	\$ 7.4	\$ —	\$ —	\$ —	\$ —	\$ —
Foundry and inventory purchase obligations	31.3	31.3	—	—	—	—	—
Mainframe support	17.7	8.6	7.4	1.7	—	—	—
Various information technology and communication services	17.9	15.5	1.2	1.1	—	—	0.1
Other	4.3	3.0	1.0	0.3	—	—	—
	\$78.6	\$65.8	\$9.6	\$3.1	\$—	\$—	\$ 0.1

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Other Contingencies

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

Commitments with Affiliate

Leshan-Phoenix Semiconductor Company Limited ("Leshan"), operates a back-end manufacturing facility in Leshan, China. ON Semiconductor owns a majority of the outstanding equity interests of Leshan. Pursuant to the joint venture agreement, requests for production capacity are made to the board of directors of Leshan by each shareholder. These requests represent a purchase commitment by the respective shareholder of the Leshan joint venture; however, each shareholder may elect to pay the cost associated with the unused capacity (which is generally equal to the fixed cost of the capacity), in lieu of the commitment. The Company provides forecasted needs to Leshan on a periodic basis, an approximate six-month cycle, which are used to establish pricing over the forecasted period, and, as described above, the Company is responsible for underutilized capacity cost due to variations from our forecasted needs. The Company committed to purchase 82%, 85% and 81% of the total products produced by Leshan in 2003, 2002 and 2001, respectively, and is currently committed to purchase 86% of the product produced by Leshan in 2004. Because the Company purchased less than its committed amounts in 2003, 2002 and 2001, it incurred \$0.5 million, \$1.5 million and \$6.4 million in underutilization charges, respectively.

Legal Matters

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

During the period July 5, 2001 through July 27, 2001, ON Semiconductor was named as a defendant in three shareholder class action lawsuits that were filed in federal court in New York City against ON Semiconductor and certain of its 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 ON Semiconductor's initial public offering improperly required their customers to pay the underwriters excessive commissions and to agree to buy additional shares of ON Semiconductor's common stock in the aftermarket as conditions of receiving shares in its initial public offering. The amended complaint further alleges that these supposed practices of the underwriters should have been disclosed in ON Semiconductor's initial public offering prospectus and registration statement. The amended complaint alleges violations of both the registration and antifraud provisions of the federal securities laws and seeks unspecified damages. We understand that various other plaintiffs have filed substantially similar class action cases against approximately

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300 other publicly traded companies and their public offering underwriters in New York City, which along with the cases against ON Semiconductor have all been transferred to a single federal district judge for purposes of coordinated case management. ON Semiconductor believes that the claims against it are without merit and has defended, and intends to continue to defend, the litigation vigorously. The litigation process is inherently uncertain, however, and ON Semiconductor cannot guarantee that the outcome of these claims will be favorable.

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

In June 2003, upon the determination of a special independent committee of our Board of Directors, ON Semiconductor elected to participate in a proposed settlement with the plaintiffs in this litigation. If ultimately approved by the Court, this proposed settlement would result in a dismissal, with prejudice, of all claims in the litigation against ON Semiconductor and against any of the other issuer defendants who elect to participate in the proposed settlement, together with the current or former officers and directors of participating issuers who were named as individual defendants. The proposed settlement does not provide for the resolution of any claims against the underwriter defendants, and the litigation against those defendants is continuing. The proposed settlement provides that the class members in the class action cases brought against the participating issuer defendants will be guaranteed a recovery of \$1 billion by the participating issuer defendants. If recoveries totaling less than \$1 billion are obtained by the class members from the underwriter defendants, the class members will be entitled to recover the difference between \$1 billion and the aggregate amount of those recoveries from the participating issuer defendants. If recoveries totaling \$1 billion or more are obtained by the class members from the underwriter defendants, however, the monetary obligations to the class members under the proposed settlement will be satisfied. In addition, ON Semiconductor and any other participating issuer defendants will be required to assign to the class members certain claims that they may have against the underwriters of 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. ON Semiconductor expects that its insurance proceeds will be sufficient for these purposes and that ON Semiconductor will not otherwise be required to contribute to the proposed settlement. Consummation of the proposed settlement is conditioned upon, among other things, negotiating, executing, and filing with the Court final settlement documents, and final approval by the Court. Formal settlement documents for submission to the Court are currently being drafted. If the proposed settlement described above is not consummated, however, ON Semiconductor intends to continue to defend the litigation vigorously. While ON Semiconductor can make no promises or guarantees as to the

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outcome of these proceedings, ON Semiconductor 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 15: Related Party Transactions

The Company agreed to pay TPG an annual management fee of up to \$2.0 million. In connection with the Cherry acquisition described in Note 3, the Company paid TPG a \$2.0 million advisory fee in-lieu of the annual management fee for 2000. The payment of the annual management fee to TPG has been waived until certain conditions are met and no such management fees were incurred in 2001, 2002 or 2003. Management fees may be paid to TPG in cash or with the ON Semiconductor's common stock or warrants.

In connection with the Recapitalization, Motorola assigned, licensed or sublicensed intellectual property to the Company relating to certain of the Company's products. Motorola also agreed to continue providing manufacturing and assembly services, to continue using similar services the Company provides to them and to lease real estate to the Company. The manufacturing and assembly services that the Company and Motorola have agreed to continue to provide to each other are at prices intended to approximate each party's cost of providing the services and are fixed throughout the term of the agreements. As of December 31, 2003, the Company has no minimum commitments to purchase manufacturing services from Motorola in 2004. Related party activity between the Company and Motorola is as follows (in millions):

	Year ended December 31,		
	2003	2002	2001
Cash paid for:			
Purchases of manufacturing services from Motorola	\$ 8.9	\$14.3	\$87.4
Cost of other services, rent and equipment purchased from Motorola	\$ 0.8	\$ 1.5	\$17.7
Cash received for:			
Freight sharing agreement with Motorola	\$ —	\$21.4	\$21.9
Rental of property and equipment to Motorola	\$ 5.6	\$ 9.1	\$11.2
Product sales to Motorola	\$74.9	\$99.5	\$94.3

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

As part of the recapitalization, Motorola agreed to provide the Company with worldwide freight services through August 4, 2002. This agreement resulted in better prices than the Company could obtain from third parties.

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Note 16: Supplemental Disclosure of Cash Flow Information

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

	Year Ended December 31,		
	2003	2002	2001
Non-cash financing activities:			
Equipment acquired through capital leases	6.6	\$ —	\$ 3.0
Cash (received) paid for:			
Interest	141.7	103.8	113.3
Income taxes	1.8	(0.6)	(1.3)

Note 17: Segment Information

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

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

	Year ended December 31,		
	2003	2002	2001
United States	\$ 319.5	\$ 393.1	\$ 430.6
The Other Americas	4.0	8.2	55.1
Asia/Pacific	484.8	416.5	376.8
Europe	189.3	201.7	264.0
Japan	63.3	65.0	88.1
	<u>\$ 1,060.9</u>	<u>\$ 1,084.5</u>	<u>\$ 1,214.6</u>
	Year ended December 31,		
	2003	2002	2001
Power Management and Standard Analog	\$ 333.4	\$ 362.7	\$ 365.4
MOS Power Devices	152.6	138.7	146.7
High Frequency Clock and Data Management	80.5	72.0	118.5
Standard Components	494.4	511.1	584.0
	<u>\$ 1,060.9</u>	<u>\$ 1,084.5</u>	<u>\$ 1,214.6</u>

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

	December 31,	
	2003	2002
United States	\$ 94.3	\$ 104.4
Europe	89.4	97.4
Malaysia	78.7	103.1
Japan	71.7	72.6
The Other Asia/Pacific	25.7	32.6
The Other Americas	20.1	44.0
	<u>\$379.9</u>	<u>\$454.1</u>

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2003 and 2002 and for the Years Ended December 31, 2003, 2002 and 2001

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors and Stockholder
of ON Semiconductor Trading Ltd.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholder's equity (deficit) and of cash flows present fairly, in all material respects, the financial position of ON Semiconductor Trading Ltd. and its subsidiaries (an indirect wholly-owned subsidiary of ON Semiconductor Corporation) at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

PRICEWATERHOUSECOOPERS LLP

Phoenix, Arizona
February 2, 2004, except for the
third paragraph of Note 2
for which the date is February 9, 2004

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

	December 31,	
	2003	2002
	(in millions, except share data)	
ASSETS		
Cash and cash equivalents	\$ 28.1	\$ 30.8
Receivables, net	99.1	73.0
Inventories, net	147.6	138.1
Other current assets	9.7	16.3
Deferred income taxes	1.8	2.8
	<hr/>	<hr/>
Total current assets	286.3	261.0
Property, plant and equipment, net	6.1	8.8
Deferred income taxes	0.9	1.3
Other assets	7.6	4.2
	<hr/>	<hr/>
Total assets	\$ 300.9	\$ 275.3
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Accounts payable	\$ 48.5	\$ 24.0
Accrued expenses	28.8	21.2
Due to affiliates	73.0	76.7
Income taxes payable	1.4	0.7
Deferred income on sales to distributors	47.0	52.9
	<hr/>	<hr/>
Total current liabilities	198.7	175.5
Other long-term liabilities	3.5	2.0
Notes payable to parent	104.7	160.3
	<hr/>	<hr/>
Total liabilities	306.9	337.8
	<hr/>	<hr/>
Commitments and contingencies (See Note 12)	—	—
	<hr/>	<hr/>
Common stock (\$1.00 par value, 50,000 shares authorized, 12,000 shares issued and outstanding)	—	—
Additional paid-in capital	40.4	40.4
Accumulated other comprehensive income	0.6	0.5
Accumulated deficit	(47.0)	(103.4)
	<hr/>	<hr/>
Total stockholder's equity (deficit)	(6.0)	(62.5)
	<hr/>	<hr/>
Total liabilities and stockholder's equity (deficit)	\$ 300.9	\$ 275.3
	<hr/>	<hr/>

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

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

	Year Ended December 31,		
	2003	2002	2001
	(in millions)		
Revenues:			
External revenues	\$ 741.6	\$ 690.0	\$ 744.4
Revenues from affiliates	252.4	230.3	272.9
Total revenues	<u>994.0</u>	<u>920.3</u>	<u>1,017.3</u>
Cost of sales:			
External cost of sales	537.0	521.6	619.7
Cost of sales to affiliates	252.9	240.0	290.4
Total cost of sales	<u>789.9</u>	<u>761.6</u>	<u>910.1</u>
Gross profit	<u>204.1</u>	<u>158.7</u>	<u>107.2</u>
Operating expenses:			
Research and development	74.8	55.1	72.4
Selling and marketing	24.7	24.6	28.6
General and administrative	36.5	37.7	43.3
Restructuring, asset impairments and other, net	3.3	6.0	16.0
Total operating expenses	<u>139.3</u>	<u>123.4</u>	<u>160.3</u>
Operating income (loss)	64.8	35.3	(53.1)
Interest expense, net	(7.5)	(12.1)	(13.3)
Income (loss) before income taxes and cumulative effect of accounting change	<u>57.3</u>	<u>23.2</u>	<u>(66.4)</u>
Income tax benefit (provision)	(0.9)	(1.3)	1.2
Income (loss) before cumulative effect of accounting change	56.4	21.9	(65.2)
Cumulative effect of accounting change, net of tax	—	—	(81.5)
Net income (loss)	<u>\$ 56.4</u>	<u>\$ 21.9</u>	<u>\$ (146.7)</u>

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

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (DEFICIT)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
			(in millions)		
Balance at December 31, 2000	\$ —	\$ 40.4	\$ 0.6	\$ 21.4	\$ 62.4
Comprehensive loss:					
Net loss		—	—	(146.7)	(146.7)
Foreign currency translation adjustments		—	(0.1)	—	(0.1)
Comprehensive loss			(0.1)	(146.7)	(146.8)
Balance at December 31, 2001	—	40.4	0.5	(125.3)	(84.4)
Comprehensive income:					
Net income		—	—	21.9	21.9
Comprehensive income			—	21.9	21.9
Balance at December 31, 2002	—	40.4	0.5	(103.4)	(62.5)
Comprehensive income:					
Net income		—	—	56.4	56.4
Foreign currency translation adjustments		—	0.1	—	0.1
Comprehensive income			0.1	56.4	56.5
Balance at December 31, 2003	\$ —	\$ 40.4	\$ 0.6	\$ (47.0)	\$ (6.0)

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

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

	Year Ended December 31,		
	2003	2002	2001
	(in millions)		
Cash flows from operating activities:			
Net income (loss)	\$ 56.4	\$ 21.9	\$ (146.7)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	4.1	4.7	7.1
Cumulative effect of accounting change	—	—	81.5
Provision for excess inventories	8.0	13.2	42.4
Non-cash impairment of property, plant and equipment	0.3	0.2	2.7
Deferred income taxes	1.9	1.5	0.9
Other	(0.3)	0.7	(0.5)
	<u> </u>	<u> </u>	<u> </u>
Changes in assets and liabilities:			
Receivables	(26.3)	(23.9)	78.4
Inventories	(17.5)	30.5	(12.4)
Other assets	3.2	(12.3)	1.1
Due from affiliates	—	106.4	(93.7)
Accounts payable	24.5	(7.4)	(8.7)
Accrued expenses	7.6	10.0	(44.5)
Due to affiliates	(4.6)	72.2	(77.6)
Income taxes payable	0.7	(2.5)	(11.4)
Deferred income on sales to distributors	(5.9)	(8.5)	(34.3)
Other long-term liabilities	1.5	(1.7)	(1.8)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	53.6	205.0	(217.5)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from investing activities:			
Purchases of property, plant and equipment	(0.8)	(0.3)	(2.5)
Proceeds from sales of property, plant and equipment	—	0.2	0.3
	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities	(0.8)	(0.1)	(2.2)
	<u> </u>	<u> </u>	<u> </u>
Cash flows from financing activities:			
Proceeds from borrowings from Parent	236.6	206.3	515.5
Repayment of borrowings from Parent	(292.2)	(413.9)	(320.0)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) financing activities	(55.6)	(207.6)	195.5
	<u> </u>	<u> </u>	<u> </u>
Effect of exchange rate changes on cash and cash equivalents	0.1	—	—
	<u> </u>	<u> </u>	<u> </u>
Net decrease in cash and cash equivalents	(2.7)	(2.7)	(24.2)
Cash and cash equivalents, beginning of period	30.8	33.5	57.7
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	<u>\$ 28.1</u>	<u>\$ 30.8</u>	<u>\$ 33.5</u>

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

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

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

Note 2: Liquidity

During the year ended December 31, 2003, ON Semiconductor incurred a net loss of \$166.7 million compared to net losses of \$141.9 and 831.4 million in 2002 and 2001, respectively. ON Semiconductor’s net results included restructuring, asset impairments and other, net of \$61.2 million, \$27.7 million and \$150.4 million in 2003, 2002 and 2001, respectively, as well as interest expense of \$151.1, \$152.5 million and \$143.6 million, respectively. ON Semiconductor’s operating activities provided cash of \$45.7 in 2003 and \$46.4 million in 2002 and used cash of \$116.4 million in 2001.

At December 31, 2003, ON Semiconductor had \$186.6 million in cash and cash equivalents, net working capital of \$212.5 million, term or revolving debt of \$1,302.9 million and a stockholders’ deficit of \$644.6 million. ON Semiconductor’s long-term debt includes \$320.1 million under its senior bank facilities; \$191.6 million (net of discount) of its 13% senior secured notes due 2010; \$292.6 million (net of discount) of its 12% senior secured notes due 2008; \$260.0 million of its 12% senior subordinated notes due 2009; \$139.9 million under a 10% junior subordinated note payable to Motorola due 2011; \$48.0 million under a loan facility with a Chinese bank due 2013; \$24.3 million under a note payable to a Japanese bank due 2010; \$20.0 million under a loan facility with a Chinese bank due 2007; and \$6.4 million under a capital lease obligations. ON Semiconductor was in compliance with all of the covenants contained in its various debt agreements at December 31, 2003 and expects to remain in compliance over the next twelve months.

In February 2004, ON Semiconductor completed a public offering of common stock resulting in net proceeds of \$226.7 million. The net proceeds are expected to be used to redeem \$70.0 million principal amount of ON Semiconductor’s 13% senior secured notes due 2010 and \$105 million principal amount of the 12% senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes. The remaining proceeds will be used for general corporate purposes.

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

If ON Semiconductor fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to ON Semiconductor. Management believes that cash flow from operating activities coupled with existing cash balances will be

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

adequate to fund ON Semiconductor's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2004. To the extent that results or events differ from ON Semiconductor's financial projections or business plans, the Company's liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period.

Significant estimates have been used by management in conjunction with the measurement of valuation allowances relating to receivables and inventories; reserves for customer incentives and restructuring charges; the future cash flows associated with long-lived assets; and, the fair values of financial instruments. Actual results could differ from these estimates.

Cash Equivalents

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

Inventories

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

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

Property and Equipment

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

The Company evaluates the recoverability of the carrying amount of its property, plant and equipment whenever events or changes in circumstances indicate that the related carrying amount of an asset may not be

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

recoverable. Impairment is assessed when the undiscounted expected cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in operating results. Judgment is used when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments and the fair value of an impaired asset. The dynamic economic environment in which the Company operates and the resulting assumptions used to estimate future cash flows impact the outcome of these impairment tests.

Revenue Recognition

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

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

Research and Development Costs

Research and development costs are expensed as incurred.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Stock-Based Compensation

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

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

	Year Ended December 31,		
	2003	2002	2001
Net income (loss), as reported	\$56.4	\$21.9	\$(146.7)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1.9)	(1.9)	(1.5)
Pro forma net income (loss)	\$54.5	\$20.0	\$(148.2)

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

Employee Stock Options	2003	2002	2001
Expected life (in years)	5	5	5
Risk-free interest rate	3.09%	4.28%	4.83%
Volatility	0.79	0.70	0.70
Employee Stock Purchase Plan	2003	2002	2001
Expected life (in years)	0.25	0.25	0.25
Risk-free interest rate	1.07%	1.71%	4.26%
Volatility	0.82	0.70	0.70

The weighted-average estimated fair value of employee stock options granted during 2003, 2002 and 2001 was \$1.59, \$1.93, and \$3.23 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under ON Semiconductor's 2000 Employee Stock Purchase Plan during 2003, 2002 and 2001 was \$0.60, \$0.62 and \$1.24, respectively.

Income Taxes

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

Income taxes are accounted for using the asset and liability method and are determined on a separate return basis. Under this method, deferred income tax assets and liabilities are recognized for the future tax

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

In determining the amount of the valuation allowance, estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction are considered. If all or a portion of the remaining deferred tax assets will not be realized, the valuation allowance will be increased with a charge to income tax expense. Conversely, if the Company will ultimately be able to utilize all or a portion of the deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense. The Company's ability to utilize its deferred tax assets and the continuing need for a related valuation allowance are monitored on an ongoing basis.

Foreign Currencies

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

Defined Benefit Plans

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

Reclassifications

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

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", the Company records the appropriate liability when the amount is deemed probable and estimable.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Related Party Transactions

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

Recent Accounting Pronouncements

In the second quarter of 2003, the Company adopted FASB Interpretation No. 46 (“FIN No. 46), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51”. 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 adoption of FIN No. 46 did not impact the Company’s financial condition or results of operations.

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”. SFAS No 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not impact the Company’s financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity”. SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer that must be classified as liabilities and carried at liquidation value. Such freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase the issuer’s equity shares by transferring assets, and certain obligations to issue a variable number of shares. The Company’s adoption of the other provisions of SFAS No. 150 at the beginning of the third quarter of 2003 did not impact its financial condition or results of operations.

In December 2003, the FASB issued SFAS No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits (revised 2003)”. SFAS No. 132 revises employers’ disclosures about pension plans and other postretirement benefit plans. It requires additional disclosures to those in the original SFAS No. 132 about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132, which also requires new disclosures for interim periods beginning after December 15, 2003, is effective for fiscal years ending after December 15, 2003, except for certain disclosures associated with foreign plans which are required for years ended after June 15, 2004, the Company has included the required disclosures in Note 9 “Employee Benefit Plans”.

Note 4: Accounting Changes

Sales are made to distributors under agreements that allow certain rights of return and price protection on products that are not resold by such distributors. Prior to January 1, 2001, the Company recognized revenue on distributor sales when title passed to the distributor. Provisions were also recorded at that time for estimated sales returns from our distributors on these unsold products. Effective January 1, 2001, the Company changed its revenue recognition method on sales to distributors so that such revenues are recognized at the time the distributor sells the Company’s products to the end customer. Title to products sold to distributors typically

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

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

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

The Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations effective January 1, 2003. Historically, the Company amortized such net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. The Company will no longer defer actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred. This change did not have a material impact on the Company's financial position or results of operations.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 5: Restructuring, Asset Impairments and Other, Net

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

	Reserve Balance at December 31, 2002	2003 Charges	2003 Usage	Adjustments	Reserve Balance at December 31, 2003
December 2003					
Cash employee separation charges	\$ —	\$ 0.6	\$ —	\$ —	\$ 0.6
September 2003					
Cash employee separation charges	—	0.8	(0.5)	—	0.3
June 2003					
Cash exit costs	—	1.2	(1.2)	—	—
Non-cash impairment of property, plant and equipment	—	0.2	(0.2)	—	—
	—				—
June 2002					
Cash employee separation charges	0.4	—	(0.4)	—	—
March 2002					
Cash employee separation charges	2.9	—	(2.8)	0.5	0.6
	\$ 3.3	\$ 2.8	\$(5.1)	\$ 0.5	\$ 1.5
	Reserve Balance at December 31, 2001	2002 Charges	2002 Usage	Adjustments	Reserve Balance at December 31, 2002
June 2002					
Cash employee separation charges	\$ —	\$ 0.6	\$(0.2)	\$ —	\$ 0.4
Non-cash impairment of property, plant and equipment	—	0.2	(0.2)	—	—
	—				0.4
March 2002					
Cash employee separation charges	—	5.3	(2.7)	0.3	2.9
December 2001					
Cash employee separation charges	0.8	—	(0.8)	—	—
June 2001					
Cash exit costs	1.3	—	(0.9)	(0.4)	—
March 2001					
Cash employee separation charges	0.3	—	(0.3)	—	—
	\$ 2.4	\$ 6.1	\$(5.1)	\$ (0.1)	\$ 3.3

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

	Reserve Balance at December 31, 2000	2001 Charges	2001 Usage	Adjustments	Reserve Balance at December 31, 2001
December 2001					
Cash employee separation charges	\$ —	\$ 1.1	\$ (0.3)	\$ —	\$ 0.8
Non-cash impairment of property, plant and equipment	—	1.3	(1.3)	—	—
	—				0.8
June 2001					
Cash employee separation charges	—	4.8	(4.7)	(0.1)	—
Cash exit costs	—	1.3	—	—	1.3
Non-cash impairment of property, plant and equipment	—	1.4	(1.4)	—	—
Non-cash stock compensation and pension charges	—	0.5	(0.5)	—	—
	—				1.3
March 2001					
Cash employee separation charges	—	5.7	(5.4)	—	0.3
	\$ —	\$ 16.1	\$ (13.6)	\$ (0.1)	\$ 2.4

The following table reconciles the restructuring activity in the tables above to the “Restructuring, asset impairments and other, net” caption on the Statements of Operations for the years ended December 31, 2003, 2002 and 2001, (in millions):

	Year Ended December 31, 2003
2003 Charges	\$ 2.8
Plus: Additional net charges related to employee separation costs (March 2002)	0.5
	\$ 3.3
<hr/>	
	Year Ended December 31, 2002
2002 Charges	\$ 6.1
Less: Reserves released during the period	(0.1)
	\$ 6.0
<hr/>	
	Year Ended December 31, 2001
2001 Charges	\$ 16.1
Less: Reserves released during the period	(0.1)
	\$ 16.0

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

December 2003

In December 2003, the Company recorded a \$0.6 million charge, associated with worldwide restructuring programs to cover employee separation costs relating to the termination of 5 employees, reflecting further reductions in selling, general and administrative personnel in France, Germany and the United Kingdom. As of December 31, 2003, all impacted employees had been notified but not yet terminated, and the Company currently expects to terminate all employees and pay the entire balance of employee severance costs by December 2004.

September 2003

In September 2003, the Company recorded a \$1.0 million charge, associated with worldwide restructuring programs to cover employee separation costs relating to the termination of 7 employees, reflecting further reductions in general and administrative personnel in France, Germany and Hong Kong. The charge included an additional \$0.2 million charge associated with the March 2002 restructuring program described below.

All impacted employees had been terminated, and the Company currently expects to pay the remaining \$0.3 million of employee severance costs by December 2004.

June 2003

In June 2003, the Company recorded charges totaling \$1.7 million associated with its restructuring programs. The charges include \$1.2 million of lease and contract termination costs, \$0.2 million of asset impairments and an additional \$0.3 million associated with employee separation costs included in March 2002 restructuring program.

The lease and contract termination costs relate to the exit of certain sales and administrative offices in Bermuda and Europe and the termination of other purchase and supply agreements. As of December 31, 2003, all exit costs related to these charges have been paid.

The Company identified certain buildings, machinery, software and equipment that would no longer be used internally due to the continued consolidation of general and administrative functions and recorded an asset impairment charge of \$0.2 million to write-down the remaining carrying value of these assets to their net realizable value.

June 2002

In June 2002, the Company recorded charges totaling \$0.8 million for costs associated with its restructuring activities including \$0.6 million to cover employee separation costs associated with the termination of two employees and \$0.2 million for equipment write-offs that were charged directly against the related assets. The employee separation costs reflected further reductions in general and administrative staffing levels. As of December 31, 2003, all impacted employees had been terminated and the related severance payments had been made.

March 2002

In March 2002, the Company recorded a \$5.3 million charge to cover employee separation costs relating to the termination of 62 employees. Approximately \$5.0 million of this charge is attributable to employee terminations resulting from the Company's decision to relocate its European administrative functions from

ON SEMICONDUCTOR TRADING LTD
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Toulouse, France to Roznov, Czech Republic and Piestany, Slovakia. The remaining \$0.3 million relates to reductions in selling, general and administrative functions primarily in the United Kingdom. The Company recorded an additional \$0.3 in employee separation costs relating to the relocation of the administrative functions in Toulouse, France during 2003 as a result of its reevaluation of remaining costs to be incurred. As of December 31, 2003, the remaining liability relating to this restructuring was \$0.6 million and the Company expects that the remaining severance benefits will be paid by June 2004.

December 2001

In December 2001, the Company recorded charges totaling \$2.4 million for costs associated with its worldwide restructuring programs. The charges included \$1.1 million to cover employee separation costs associated with the terminations of 5 employees as well as \$1.3 million for property and equipment write-offs that were charged directly against the related assets. The employee separation costs reflected reductions in selling, general and administrative staffing levels. As of December 31, 2002, all impacted employees had been terminated. The \$1.3 million charge related the write-off of certain property and equipment located in France and Slovakia that would no longer be utilized as a result of the Company's restructuring activities.

June 2001

In June 2001, the Company recorded charges totaling \$8.0 million for costs associated with its worldwide restructuring programs. These programs were in response to rapidly changing economic circumstances requiring the Company to rationalize its operations to meet declining customer demand. The charge included \$4.8 million to cover employee separation costs associated with the termination of approximately 175 employees and \$0.5 million for additional pension charges related to the terminated employees. As of December 31, 2002, all of the employees had been terminated under this restructuring program.

The Company identified certain manufacturing equipment that would no longer be used internally and recorded a charge of \$1.4 million to write-off the assets.

The June 2001 charge also included \$1.3 million to cover certain exit costs relating to contract terminations. During 2002, the Company recorded a \$0.4 adjustment to release reserves associated with the June 2001 restructuring programs due to the Company's analysis of estimated costs to complete those programs. As of December 31, 2002, all exit activities have been completed.

March 2001

In March 2001, the Company recorded charges totaling \$5.7 million for costs associated with its worldwide restructuring programs. The charges of \$5.7 million cover employee separation costs associated with the termination of approximately 80 employees. The employee separation costs reflected reductions in selling, general and administrative staffing. As of December 31, 2002, all of the employees had been terminated under this restructuring program.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 6: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31,	
	2003	2002
Receivables, net:		
Accounts receivable	\$ 99.8	\$ 73.6
Less: Allowance for doubtful accounts	(0.7)	(0.6)
	<u>\$ 99.1</u>	<u>\$ 73.0</u>
Inventories, net		
Raw materials	\$ 5.4	\$ 3.7
Work in process	105.2	108.4
Finished goods	75.0	67.2
Total inventories	<u>185.6</u>	<u>179.3</u>
Less: Inventory reserves	(38.0)	(41.2)
	<u>\$ 147.6</u>	<u>\$ 138.1</u>
Property, plant and equipment, net:		
Buildings	\$ 0.4	\$ 0.6
Machinery and equipment	25.4	31.3
Total property, plant and equipment	<u>25.8</u>	<u>31.9</u>
Less: Accumulated depreciation	(19.7)	(23.1)
	<u>\$ 6.1</u>	<u>\$ 8.8</u>
Accrued expenses:		
Accrued payroll	\$ 9.2	\$ 5.9
Other taxes payable	2.0	6.6
Sales related reserves	14.7	3.1
Restructuring reserve	1.5	3.3
Other	1.4	2.3
	<u>\$ 28.8</u>	<u>\$ 21.2</u>
Accumulated other comprehensive income:		
Foreign currency translation adjustments	\$ 0.6	\$ 0.5

Depreciation expense totaled \$4.1 million, 4.7 million and \$7.1 million for the years ended December 31, 2003, 2002 and 2001, respectively.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

The activity related to the Company's inventory reserves and warranty reserves for the years ended December 31, 2001, 2002 and 2003 follows:

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions/ Writeoffs	Balance at End of Period
Inventory reserves					
Year ended December 31, 2001	\$ 17.3	\$ 42.4		\$ (16.1)	\$ 43.6
Year ended December 31, 2002	\$ 43.6	\$ 13.2		\$ (15.6)	\$ 41.2
Year ended December 31, 2003	\$ 41.2	\$ 8.0		\$ (11.2)	\$ 38.0
Warranty reserves					
Year ended December 31, 2001	\$ 1.1	\$ —		\$ (0.4)	\$ 0.7
Year ended December 31, 2002	\$ 0.7	\$ 0.1		\$ (0.1)	\$ 0.7
Year ended December 31, 2003	\$ 0.7	\$ 0.1		\$ —	\$ 0.8
Allowance for deferred tax assets					
Year ended December 31, 2001	\$ —	\$ —	\$ 0.6(1)	\$ —	\$ 0.6
Year ended December 31, 2002	\$ 0.6	\$ 1.0	\$ 1.5(2)	\$ —	\$ 3.1
Year ended December 31, 2003	\$ 3.1	\$ —	\$ (0.5)	\$ —	\$ 2.6

Note 7: Income Taxes

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

	Year Ended December 31,		
	2003	2002	2001
Bermuda	\$43.5	\$18.4	\$(63.8)
Other foreign countries	13.7	4.8	(2.6)
	<u>\$57.2</u>	<u>\$23.2</u>	<u>\$(66.4)</u>

The provision (benefit) for income taxes for the years ended December 31, 2003, 2002 and 2001, all of which relates to operations outside of Bermuda, is as follows (in millions):

	Year Ended December 31,		
	2003	2002	2001
Current	\$(1.0)	\$(0.2)	\$(2.1)
Deferred	1.9	1.5	0.9
	<u>\$ 0.9</u>	<u>\$ 1.3</u>	<u>\$(1.2)</u>

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

A reconciliation of the Bermuda statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2003	2002	2001
Bermuda statutory rate	— %	— %	— %
Increase (decrease) resulting from:			
Foreign rate differential	2.5	(5.2)	(2.8)
Change in valuation allowance	(0.9)	10.8	1.0
	<u>1.6 %</u>	<u>5.6 %</u>	<u>(1.8)%</u>

Deferred tax assets are as follows (in millions):

	December 31,	
	2003	2002
Tax-deductible goodwill	\$ 0.9	\$ 1.3
Reserves and accruals	1.4	1.5
Inventories	0.1	0.1
Net operating loss and tax credit carryforwards	2.9	4.2
Other	—	0.1
	<u>5.3</u>	<u>7.2</u>
Gross tax asset valuation allowance	(2.6)	(3.1)
Net deferred tax asset	<u>\$ 2.7</u>	<u>\$ 4.1</u>

A valuation allowance has been recorded against the portion of the Company's deferred tax assets that management believes is more likely than not that the related tax benefits will not be realized.

As of December 31, 2003 and 2002, the Company's foreign net operating loss carryforwards were \$7.7 million and \$13.0 million, respectively. If not utilized, these net operating losses will expire in varying amounts through 2008.

Other assets include \$6.0 million and \$3.0 million of French income tax refunds receivable at December 31, 2003 and 2002, respectively. The Company files income tax returns with the taxing authorities in the various jurisdictions in which it operates. Certain of these income tax returns remain subject to audit by the local tax authorities. Management believes that the resolution of any issues raised by such taxing authorities, including application of any related determinations to subsequent open years, will not have an adverse effect on the Company's financial condition or results of operations.

Note 8: Related Party Transactions

At December 31, 2003 and 2002, the total aggregate amount outstanding under various loan agreements between the Company and its Parent was \$104.7 million and \$160.3 million, respectively. The loan agreements expire on December 31, 2004, bear interest at a weighted average rate of 4.97% and are unsecured.

The Company consigns inventory to affiliates to perform all semiconductor manufacturing activities. The Company is charged for these activities based on intercompany pricing agreements with the respective affiliates

ON SEMICONDUCTOR TRADING LTD
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

and records the related costs in inventory. Finished goods are either sold to third-party customers outside the United States, Mexico, Brazil and Puerto Rico or to affiliates. Sales to affiliates are based on intercompany transfer pricing agreements.

SCI LLC incurs certain general and administrative and research and development costs that directly benefit the Company. General and administrative expenses that directly benefit the Company are specifically identified by management and charged to the Company by SCI LLC. Research and development costs are allocated and charged based on the percent of the Company's third-party sales to total ON Semiconductor third-party sales. Additionally, SCI LLC charges the Company a royalty fee for the use of ON Semiconductor's intellectual property. The royalty fee is a minimum of \$10.0 million annually and is based on a percentage of the Company's third-party sales, such percentage determined based on the overall annual gross margin percentage of ON Semiconductor. The allocations utilized in arriving at the amounts reflected in the accompanying consolidated financial statements are based on assumptions that management believes are reasonable in the circumstances; however, such allocations are not necessarily indicative of the costs that would have been incurred by the Company had it operated as a stand-alone entity.

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

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Purchases of manufacturing services from affiliates	\$ 797.7	\$ 719.4	\$ 814.0
Expense allocations from SCI LLC:			
General and administrative expenses			
Royalties	\$ 10.0	\$ 10.0	\$ 10.0
Other	20.0	22.9	22.0
	<u>\$ 30.0</u>	<u>\$ 32.9</u>	<u>\$ 32.0</u>
Research and development	<u>\$ 60.8</u>	<u>\$ 45.0</u>	<u>\$ 59.6</u>

Note 9: Employee Benefit Plans

Defined Benefit Plans

Certain of the Company's subsidiaries provide retirement plans for substantially all of their employees. The plans conform to local practice in terms of providing minimum benefits mandated by law, collective agreements or customary practice. Benefits under these pension plans are valued using the projected unit credit cost method. The Company does not expect to make contributions to its pension plans in 2004.

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

	December 31, 2003	December 31, 2002	December 31, 2000
Service cost	\$ 0.2	\$ 0.1	\$ —
Interest cost	0.3	0.1	—
Amortization of net gain	(0.2)	—	—
Amortization of prior service cost	—	0.1	—
Curtailed gain	—	(0.3)	—
Net periodic pension cost	\$ 0.3	\$ —	\$ —
Weighted average assumptions			
Discount rate	5.50%	5.50%	6.00%
Expected return on assets	6.00%	5.75%	6.00%
Rate of compensation increase	3.00%	3.00%	3.00%
	December 31, 2003	December 31, 2002	
Change in projected benefit obligation:			
Projected benefit obligation at the beginning of the period		\$ 3.0	\$ 2.4
Service cost		0.2	0.1
Interest cost		0.3	0.1
Curtailed gain		—	(0.3)
Actuarial (gain) loss		(0.1)	0.3
Translation loss		0.6	0.4
Projected benefit obligation at the end of the period		\$ 4.0	\$ 3.0
Accumulated benefit obligation at the end of the period		\$ 3.2	\$ 2.6
Change in Plan Assets:			
Fair value of plan assets at the beginning of the period		\$ 0.5	\$ 0.4
Actual return on plan assets		0.1	0.1
Fair value of plan assets at the end of the period		\$ 0.6	\$ 0.5
Balances, end of period:			
Pension benefit obligation		\$ (4.0)	\$ (3.0)
Fair value of plan assets		0.6	0.5
Funded status		(3.4)	(2.5)
Unrecognized net actuarial gain		—	(0.1)
Unrecognized prior service cost		0.4	0.4
Net liability recognized, end of period		\$ (3.0)	\$ (2.2)
Amounts recognized in the statement of financial position:			
Accrued expenses		\$ —	\$ (0.4)
Other long-term liabilities		(3.0)	(1.8)
Net liability recognized, end of period		\$ (3.0)	\$ (2.2)
Assumptions used to value the Company's pension obligations are as follows:			
Discount rate		5.50%	5.50%
Rate of compensation increase		3.00%	3.00%

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Defined Contribution Plans

Certain subsidiaries have defined contribution plans in which eligible employees participate. The Company recognized compensation expense of \$0.4 million, \$0.1 million and \$0.3 million for the years ended December 31, 2003, 2002 and 2001, respectively, relating to these plans.

Note 10: Stock Options

Certain employees of the Company participate in ON Semiconductor stock option plans. Generally, the options granted under these plans vest over a period of four years. Upon the termination of an option holder's employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability).

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

	2003		2002		2001	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	2.6	\$ 5.53	2.3	\$ 6.72	1.5	\$ 7.57
Grants	0.8	2.27	0.7	3.16	1.1	5.22
Exercises	(0.2)	2.12	(0.1)	1.50	(0.1)	1.50
Cancellations	(0.5)	5.54	(0.3)	9.57	(0.2)	6.62
Outstanding at end of year	2.7	\$ 4.80	2.6	\$ 5.53	2.3	\$ 6.72
Exercisable at end of year	1.0	\$ 5.98	0.9	\$ 5.81	0.5	\$ 6.11
Weighted average fair value of options granted during the period		\$ 1.60		\$ 1.93		\$ 3.23

The following tables summarize options outstanding and options exercisable at December 31, 2003:

Range of Exercise Prices	Outstanding Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
\$1.25-\$ 2.71	1.1	7.63	\$ 1.43
\$3.06-\$ 6.95	1.3	8.00	4.39
\$9.03-\$20.25	0.3	6.41	16.78
Totals	2.7		4.80

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

	Exercisable Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
\$1.25-\$ 2.71	0.5	5.71	\$ 1.50
\$3.06-\$ 6.95	0.3	7.54	4.52
\$9.03-\$20.25	0.2	6.41	16.94
Totals	1.0		5.98

These options will expire if not exercised at specific dates through November 2013.

Eligible employees also participate in ON Semiconductor's 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company's full-time employees has the right to elect to have up to 10% of their eligible earnings applied towards the purchase of shares of ON Semiconductor common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. During each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to \$6,250 divided by the fair market value of the stock on the first day of the offering period. During 2003, 2002, and 2001, employees purchased approximately 47,000, 122,000 and 188,000 shares, respectively, under the plan.

Note 11: Foreign Currency Exchange Contracts

The Company's foreign currency exposures are included in ON Semiconductor's worldwide foreign currency exposure management program. ON Semiconductor aggregates the forecasted foreign currency exposures for each of its subsidiaries on a monthly basis and enters into forward currency contracts in order to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. Prior to January 1, 2001, the Company entered into its own foreign currency contracts. The Company's net foreign currency transaction gains (losses) included in the accompanying consolidated statement of operations for the years ended December 31, 2003, 2002 and 2001 are \$4.0 million, \$2.4 million, and \$1.3 million, respectively.

Note 12: Commitments and Contingencies

Operating Leases

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of December 31, 2003 (in millions):

2004	3.7
2005	1.9
2006	1.3
2007	0.2
2008	0.1
	\$7.2

ON SEMICONDUCTOR TRADING LTD
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Legal Matters

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

Common Stock Collateral Pledge

On May 6, 2002, ON Semiconductor and SCI LLC (collectively, the "Issuers") issued \$300 million principal amount of second lien notes due 2008. The notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by ON Semiconductor's domestic restricted subsidiaries that are guarantors under its senior subordinated notes. In addition, the notes and guarantees are secured on a second priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its foreign subsidiaries, which includes the Company and certain of its affiliates, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

On March 3, 2003, the Issuers issued \$200.0 million principal amount of first-lien senior secured notes due 2010. The notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor Corporation (other than SCI LLC). The notes and guarantees are secured on a first-priority basis the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its foreign subsidiaries, which includes the Company, and certain of its affiliates, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

Note 13: Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Notes Payable to Parent

Due to the related party nature of the notes payable to Parent, it was not practicable to estimate their fair values due to the inability to obtain quoted market prices or determine current market rate for similar instruments. At December 31, 2003 and 2002, the carrying value of the notes payable to Parent was \$104.7 million and \$160.3 million, respectively.

Note 14: Supplemental Disclosure of Cash Flow Information

Cash payments for interest and income taxes for the years ended December 31, 2003, 2002 and 2001 are as follows (in millions):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cash (received) paid for:			
Interest	\$ 7.7	\$14.2	\$ 13.7
Income taxes	(0.1)	3.2	(10.4)

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2003 and 2002 and for
the Years Ended December 31, 2003, 2002 and 2001

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholder
of SCG Malaysia Holdings Sdn. Bhd.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of SCG Malaysia Holdings Sdn. Bhd. and its subsidiary (an indirect wholly-owned subsidiary of ON Semiconductor Corporation) at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

PRICEWATERHOUSECOOPERS LLP

Phoenix, Arizona
February 2, 2004, except for the
third paragraph of Note 2 for
which the date is February 9, 2004

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED BALANCE SHEET

	December 31,	
	2003	2002
	(in millions, except share data)	
ASSETS		
Cash and cash equivalents	\$ 10.0	\$ 10.7
Inventories, net	0.8	0.8
Other current assets	2.5	3.5
Due from affiliates, net	20.5	17.0
Deferred income taxes	0.7	0.6
	<hr/>	<hr/>
Total current assets	34.5	32.6
Property, plant and equipment, net	78.7	103.1
Income taxes receivable	9.7	10.4
Deferred income taxes	1.6	—
	<hr/>	<hr/>
Total assets	\$ 124.5	\$ 146.1
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Accounts payable	\$ 9.7	\$ 6.1
Accrued expenses	1.8	1.6
	<hr/>	<hr/>
Total current liabilities	11.5	7.7
Other long-term liabilities	5.0	4.4
Notes payable to affiliate	70.0	89.4
Deferred income taxes	—	1.6
	<hr/>	<hr/>
Total liabilities	86.5	103.1
	<hr/>	<hr/>
Commitments and contingencies (See Note 10)	—	—
	<hr/>	<hr/>
Common stock (\$0.2630 par value, 200,000,000 authorized 147,517,167 shares issued and outstanding)	38.8	38.8
Additional paid-in capital	14.1	11.9
Accumulated deficit	(14.9)	(7.7)
	<hr/>	<hr/>
Total stockholder's equity	38.0	43.0
	<hr/>	<hr/>
Total liabilities and stockholder's equity	\$ 124.5	\$ 146.1
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,		
	2003	2002	2001
		(in millions)	
Sales to affiliates	\$ 91.6	\$ 89.1	\$ 99.1
Cost of sales	84.5	78.7	86.6
Gross profit	7.1	10.4	12.5
Operating expenses:			
General and administrative	6.5	8.0	8.8
Restructuring, asset impairment and other, net	4.2	(1.9)	9.4
Total operating expenses	10.7	6.1	18.2
Operating income (loss)	(3.6)	4.3	(5.7)
Interest expense, net	(7.3)	(8.2)	(8.4)
Loss before income taxes	(10.9)	(3.9)	(14.1)
Income tax benefit	3.7	1.0	3.9
Net loss	\$ (7.2)	\$ (2.9)	\$ (10.2)

See accompanying notes to consolidated financial statements.

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

	Common Stock (shares)	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total
			(in millions, except share data)		
Balance at December 31, 2000	147,517,167	\$ 38.8	\$ 7.2	\$ 5.4	\$ 51.4
Contributed services by Parent		—	2.8	—	2.8
Comprehensive loss:					
Net loss		—	—	(10.2)	(10.2)
Balance at December 31, 2001	147,517,167	38.8	10.0	(4.8)	44.0
Contributed services by Parent		—	1.9	—	1.9
Comprehensive loss:					
Net loss		—	—	(2.9)	(2.9)
Balance at December 31, 2002	147,517,167	38.8	11.9	(7.7)	43.0
Contributed services by Parent		—	2.2	—	2.2
Comprehensive loss:					
Net loss		—	—	(7.2)	(7.2)
Balance at December 31, 2003	147,517,167	\$ 38.8	\$ 14.1	\$ (14.9)	\$ 38.0

See accompanying notes to consolidated financial statements.

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2003	2002	2001
	(in millions)		
Cash flows from operating activities:			
Net loss	\$ (7.2)	\$ (2.9)	\$ (10.2)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	27.2	31.9	32.7
Non-cash impairment of property, plant and equipment	4.2	—	0.9
Non-cash support costs provided by Parent	2.2	1.9	2.8
Deferred income taxes	(3.3)	1.5	(3.1)
Other	—	0.2	5.6
Changes in assets and liabilities:			
Inventories	—	(0.4)	4.0
Other assets	1.0	2.3	1.0
Due from affiliates	(3.5)	(0.7)	(13.6)
Accounts payable	3.6	(11.3)	3.0
Accrued expenses	0.2	(2.2)	0.4
Income taxes receivable	0.7	(3.3)	(3.0)
Other long-term liabilities	0.6	0.3	(1.0)
Net cash provided by operating activities	25.7	17.3	19.5
Cash flows from investing activities:			
Purchases of property, plant and equipment	(7.0)	(8.1)	(47.4)
Proceeds from sales of property, plant and equipment	—	0.1	1.2
Net cash used in investing activities	(7.0)	(8.0)	(46.2)
Cash flows from financing activities:			
Repayment of borrowings to affiliate	(19.4)	—	(25.0)
Net cash used in financing activities	(19.4)	—	(25.0)
Net increase (decrease) in cash and cash equivalents	(0.7)	9.3	(51.7)
Cash and cash equivalents, beginning of period	10.7	1.4	53.1
Cash and cash equivalents, end of period	\$ 10.0	\$ 10.7	\$ 1.4

See accompanying notes to consolidated financial statements.

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

SCG Malaysia Holdings Sdn. Bhd. (the “Company” or “SCG Malaysia”) is a wholly-owned subsidiary of Semiconductor Components Industries, LLC (“SCI LLC” or “Parent”), which is a wholly-owned subsidiary of ON Semiconductor Corporation (“ON Semiconductor”). The Company and its wholly-owned subsidiary, SCG Industries Malaysia Sdn. Bhd., are located in Seremban, Malaysia and are engaged in the manufacture of semiconductor products. Formerly known as the Semiconductor Components Group of the Semiconductor Products Sector of Motorola, Inc., ON Semiconductor was a wholly-owned subsidiary of Motorola Inc. (“Motorola”) prior to its August 4, 1999 recapitalization (the “Recapitalization”). ON Semiconductor continues to hold, through direct and indirect subsidiaries, substantially all the assets and operations of the Semiconductor Components Group of Motorola’s Semiconductor Products Sector. The Company was capitalized by the issuance of 147,517,167 shares of common stock to SCI LLC in connection with the Recapitalization.

SCI LLC incurs certain manufacturing and information technology support costs that directly benefit its various manufacturing affiliates including the Company. Although such costs are not recorded in the Company’s local statutory accounts and are not deductible for local tax purposes, they have been allocated to the Company and reflected in the accompanying consolidated financial statements as cost of sales with an offsetting capital contribution from SCI LLC. The allocations utilized in arriving at the amounts reflected in the accompanying consolidated financial statements are based on assumptions that management believes are reasonable in the circumstances; however, such allocations are not necessarily indicative of the costs that would have been incurred by the Company had it operated as a stand-alone entity.

Note 2: Liquidity

During the year ended December 31, 2003, ON Semiconductor incurred a net loss of \$166.7 million compared to net losses of \$141.9 million and \$831.4 million in 2002 and 2001, respectively. ON Semiconductor’s net results included restructuring, asset impairments and other, net of \$61.2 million, \$27.7 million and \$150.4 million in 2003, 2002 and 2001, respectively, as well as interest expense of \$151.1 million, \$152.5 million and \$143.6 million, respectively. ON Semiconductor’s operating activities provided cash of \$45.7 million in 2003 and \$46.4 million in 2002 and used cash of \$116.4 million in 2001.

At December 31, 2003, ON Semiconductor had \$186.6 million in cash and cash equivalents, net working capital of \$212.5 million, term or revolving debt of \$1,302.9 million and a stockholders’ deficit of \$644.6 million. ON Semiconductor’s long-term debt includes \$320.1 million under its senior bank facilities; \$191.6 million (net of discount) of its 13% senior secured notes due 2010; \$292.6 million (net of discount) of its 12% senior secured notes due 2008; \$260.0 million of its 12% senior subordinated notes due 2009; \$139.9 million under a 10% junior subordinated note payable to Motorola due 2011; \$48.0 million under a loan facility with a Chinese bank due 2013; \$24.3 million under a note payable to a Japanese bank due 2010; \$20.0 million under a loan facility with a Chinese bank due 2007; and \$6.4 million under a capital lease obligations. ON Semiconductor was in compliance with all of the covenants contained in its various debt agreements at December 31, 2003 and expects to remain in compliance over the next twelve months.

On February 9, 2004, ON Semiconductor completed a public offering of common stock resulting in net proceeds of \$226.7 million. The net proceeds are expected to be used to redeem \$70.0 million principal amount of ON Semiconductor’s 13% senior secured notes due 2010 and \$105.0 million principal amount of the 12% senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes. The remaining proceeds will be used for general corporate purposes.

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

If ON Semiconductor fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to ON Semiconductor. Management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund ON Semiconductor's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2004. To the extent that results or events differ from ON Semiconductor's financial projections or business plans, the Company's liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Cash Equivalents

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

Inventories

Inventories consist of raw materials and are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis), or market.

Property, Plant and Equipment

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

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

Revenue Recognition

The Company recognizes revenue when assembly and test services are completed on inventory consigned in from affiliates and the related products are shipped to the affiliated company. Revenues include the cost of wafers purchased from third-parties and the cost of assembly and test services performed plus a markup based on an intercompany transfer pricing agreement.

Stock-Based Compensation

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

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

	Year Ended December 31,		
	2003	2002	2001
Net loss, as reported	\$(7.2)	\$(2.9)	\$(10.2)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(0.5)	(0.6)	(0.7)
Pro forma net loss	\$(7.7)	\$(3.5)	\$(10.9)

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

Employee Stock Options	2003	2002	2001
Expected life (in years)	5	5	5
Risk-free interest rate	3.09%	4.40%	4.81%
Volatility	0.72	0.70	0.70
Employee Stock Purchase Plan	2003	2002	2001
Expected life (in years)	0.25	0.25	0.25
Risk-free interest rate	1.08%	1.70%	4.26%
Volatility	0.82	0.70	0.70

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The weighted-average estimated fair value of employee stock options granted during 2003, 2002 and 2001 was \$0.94, \$1.98 and \$3.18 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during 2003, 2002 and 2001 was \$0.61, \$0.59 and \$1.09, respectively.

Income Taxes

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

Foreign Currencies

The Company utilizes the U.S. dollar as its functional currency. The net effects of gains and losses from foreign currency transactions and from the translation of foreign currency financial statements into U.S. dollars are included in current operations.

Related Party Transactions

The Company has extensive transactions and relationships with ON Semiconductor and its affiliates including intercompany pricing agreements and certain manufacturing and information technology support agreements. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

Defined Benefit Plans

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

Reclassifications

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

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", the Company records the appropriate liability when the amount is deemed probable and estimable.

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Recent Accounting Pronouncements

The Company adopted FASB Interpretation No. 46 ("FIN No. 46), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". 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 adoption of FIN No. 46 did not impact the Company's financial condition or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not impact the Company's financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer that must be classified as liabilities and carried at liquidation value. Such freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase the issuer's equity shares by transferring assets, and certain obligations to issue a variable number of shares. The Company's adoption of SFAS No. 150 did not impact its financial condition or results of operations.

In December 2003, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits (revised 2003)". SFAS No. 132 revises employers' disclosures about pension plans and other postretirement benefit plans. It requires additional disclosures to those in the original SFAS No. 132 about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132, which also requires new disclosures for interim periods beginning after December 15, 2003, is effective for fiscal years ending after December 15, 2003, except for certain disclosures associated with foreign plans which are required for years ended after June 15, 2004. The Company has included the required disclosures in Note 7 "Employee Benefit Plans".

Note 4: Property, Plant and Equipment

Property, plant and equipment consists of the following at December 31, 2003 and 2002 (in millions):

	December 31,	
	2003	2002
Property, plant and equipment, net:		
Buildings	\$ 46.8	\$ 46.6
Machinery and equipment	244.0	243.9
Total property, plant and equipment	290.8	290.5
Less: Accumulated depreciation	(212.1)	(187.4)
	<u>\$ 78.7</u>	<u>\$ 103.1</u>

Depreciation expense totaled \$27.2 million, \$31.9 million and \$32.7 million for the years ended December 31, 2003, 2002 and 2001, respectively.

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 5: Notes Payable to Affiliate

In conjunction with the Recapitalization, the Company entered into notes payable with an affiliate totaling \$114.4 million. Borrowings under the notes payable bear interest at 9.3% (payable monthly) and are due July 31, 2011. As of December 31, 2003 and 2002, \$70.0 million and \$89.4 million were outstanding under these notes payable. During 2003 the Company repaid \$19.4 million of the note payable, resulting in \$70.0 million outstanding at December 31, 2003.

Cash paid for interest was \$7.4 million, \$8.7 million and \$8.4 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 6: Income Taxes

The income tax benefit is as follows (in millions):

	Year Ended December 31,		
	2003	2002	2001
Current	\$(0.3)	\$(2.6)	\$(0.8)
Deferred	(3.4)	1.6	(3.1)
	<u>\$(3.7)</u>	<u>\$(1.0)</u>	<u>\$(3.9)</u>

A reconciliation of the Malaysian statutory income tax rate to the Company's effective income tax is as follows:

	Year Ended December 31,		
	2003	2002	2001
Malaysian statutory rate	(28.0)%	(28.0)%	(28.0)%
Increase (decrease) resulting from:			
Reinvestment allowances	—	—	(9.6)
Non-deductible corporate expense allocation	5.7	22.6	3.0
Income taxes of prior years	(4.2)	(35.9)	0.4
Foreign currency remeasurement	0.6	14.0	6.7
Other	(8.0)	1.7	(0.2)
	<u>(33.9)%</u>	<u>(25.6)%</u>	<u>(27.7)%</u>

Deferred tax assets (liabilities) at December 31, 2003 and 2002 are as follows (in millions):

	Year Ended December 31,	
	2003	2002
Reserves and accruals	\$0.3	\$ 0.3
Property, plant and equipment	0.3	(2.9)
Other	1.7	1.6
Net deferred tax asset (liability)	<u>\$2.3</u>	<u>\$(1.0)</u>

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

For the year ended December 31, 2003, income tax refunds totaling \$1.1 million were received. Cash paid for income taxes was \$0.8 million and \$2.2 million for the years ended December 31, 2002 and 2001, respectively.

Long-term income tax receivables totaled \$9.7 million and \$10.4 million at December 31, 2003 and 2002, respectively, relating to tax credits due to the Company under Section 110 of the Malaysian income tax system.

Note 7: Employee Benefit Plans

The Company has a noncontributory pension plan that covers most employees. The benefit formula is dependent upon employee earnings and years of service. The Company's policy is to fund the plan in accordance with the requirements and regulations of Malaysian labor laws. Benefits under the pension plan are valued using the projected unit credit method. The Company contributes to the pension plan to the extent necessary to pay plan benefits.

In 2003, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. The Company no longer defers actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared with a measurement date of December 31. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred. This change did not have a material impact on the Company.

	December 31,		
	2003	2002	2001
Service cost	\$ 0.4	\$ 0.4	\$ 0.5
Interest cost	0.3	0.2	0.3
Translation loss	0.1	—	—
Curtailement gain	—	—	(0.3)
Total net periodic pension cost	\$ 0.8	\$ 0.6	\$ 0.5
Weighted average assumption			
Discount rate	5.50%	5.50%	7.00%
Rate of compensation increase	5.50%	5.50%	7.00%

	December 31,	
	2003	2002
Change in projected benefit obligation		
Projected benefit obligation at the beginning of the year	\$ 4.6	\$ 4.1
Service cost	0.4	0.4
Interest cost	0.3	0.2
Actuarial (gain) or loss	(0.1)	0.2
Benefits paid	(0.2)	(0.3)
Projected benefit obligation at the end of the year	<u>\$ 5.0</u>	<u>\$ 4.6</u>
Accumulated benefit obligation at the end of the year	<u>\$ 4.5</u>	<u>\$ 4.1</u>
Change in plan assets		
Fair value of plan assets at the beginning of the year	\$ —	\$ —
Benefits paid	(0.2)	(0.3)
Employer contributions	0.2	0.3
Fair value of plan assets at the end of the year	<u>\$ —</u>	<u>\$ —</u>
Net amount recognized		
Funded status	\$ (5.0)	\$ (4.6)
Unrecognized net (gain) or loss	—	0.2
Net amount recognized	<u>\$ (5.0)</u>	<u>\$ (4.4)</u>
Amounts recognized in the statement of financial position:		
Other long-term liabilities	<u>\$ (5.0)</u>	<u>\$ (4.4)</u>
Weighted average assumptions at the end of the year		
Discount rate	5.50%	5.50%
Rate of compensation increase	5.50%	5.50%

Note 8: Foreign Currency Exchange Contracts

The Company's foreign currency exposures are included in ON Semiconductor's worldwide foreign currency exposure management program. ON Semiconductor aggregates the forecasted foreign currency exposures for each of its subsidiaries on a monthly basis and enters into forward currency contracts in order to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. The Company's net foreign currency transaction losses included in the accompanying consolidated statement of operations for the years ended December 31, 2003, 2002 and 2001 are \$0.8 million, \$0.0 million and \$0.2 million, respectively.

Note 9: Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Notes Payable to Affiliates

Due to the related party nature of the notes payable to affiliates, it was not practicable to estimate their fair values due to the inability to obtain quoted market prices or determine current market rate for similar instruments. At December 31, 2003 and 2002, the carrying values of the notes payable to affiliates were \$70.0 million and \$89.4 million, respectively.

Note 10: Commitments and Contingencies

Legal Matters

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

Common Stock Collateral Pledge

On May 6, 2002, ON Semiconductor and SCI LLC (collectively, the "Issuers") issued \$300 million principal amount of second lien notes due in 2008. The notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by ON Semiconductor's domestic restricted subsidiaries that are guarantors under its senior subordinated notes. In addition, the notes and guarantees are secured on a second priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its foreign subsidiaries, which includes the Company and certain of its affiliates, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

On March 3, 2003, the Issuers issued \$200.0 million principal amount of first-lien senior secured notes due 2010. The notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor (other than SCI LLC). The notes and guarantees are secured on a first-priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its foreign subsidiaries, which includes the Company and certain of its affiliates, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

Note 11: Restructuring, Asset Impairments and Other, Net

June 2003

In June of 2003, the Company recorded a non-cash asset impairment charge totaling \$4.2 million. The charge included \$3.3 million associated with the assembly and test production line which was written down to fair value based on its future discounted cash flows. Additionally, the Company identified certain machinery and equipment that would no longer be utilized and recorded a charge of \$0.9 million to write-down the remaining carrying value of these assets to their net realizable value.

June 2001

In June 2001, the Company recorded charges totaling \$5.9 million for costs associated with its restructuring programs. These programs were in response to rapidly changing economic circumstances requiring the Company

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to rationalize its manufacturing operations to meet declining customer demand. The programs included the transfer of certain manufacturing operations at the Company's facility to other ON Semiconductor-owned facilities or to third party contractors by December 2001. The charge included \$4.4 million to cover employee separation costs associated with the termination of approximately 700 employees. All impacted employees had been terminated and the Company released the remaining \$1.7 million reserve to income during the second quarter of 2002.

The planned discontinuation of certain manufacturing activities triggered an impairment analysis of the carrying value of the related assets and resulted in the Company recording asset impairment charges totaling \$0.9 million. This charge included \$0.9 million related to the Seremban assembly and test facility.

The June 2001 charge also included \$0.6 million to cover certain exit costs relating facility closure. All facility closure activities were completed and the Company released the remaining \$0.2 million reserve to income during the third quarter of 2002.

March 2001

In March 2001, the Company recorded charges totaling \$3.5 to cover employee separation costs associated with the termination of approximately 350 employees. The employee separation costs reflected further reductions in manufacturing, general and administrative staffing levels in Malaysia. All impacted employees were terminated under this restructuring program.

Note 12: Stock Options

Certain employees of the Company participate in ON Semiconductor stock option plans.

Generally, the options granted under these plans vest over a period of four years. Upon the termination of an option holder's employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability).

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

	2003		2002		2001	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	0.7	\$ 6.12	0.6	\$ 6.94	0.5	\$ 8.00
Grants	0.2	1.47	0.2	3.24	0.2	5.14
Exercises	(0.1)	1.69	—	—	—	—
Cancellations	(0.1)	5.76	(0.1)	5.38	(0.1)	12.08
Outstanding at end of year	0.7	\$ 5.24	0.7	\$ 6.12	0.6	\$ 6.94
Exercisable at end of year	0.3	\$ 7.88	0.3	\$ 8.17	0.1	\$ 1.57
Weighted average fair value of options granted during the period		\$ 0.94		\$ 1.98		\$ 3.18

SCG MALAYSIA HOLDINGS SDN. BHD.
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

The following tables summarize options outstanding and options exercisable at December 31, 2003:

Range of Exercise Prices	Outstanding Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
\$ 1.25-\$ 1.50	0.3	7.80	\$ 1.35
\$ 2.71-\$ 4.26	0.2	8.04	3.33
\$ 5.23-\$ 6.95	0.1	7.33	6.16
\$13.06-\$16.00	0.1	6.33	15.99
Totals	0.7		5.24

Range of Exercise Prices	Exercisable Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
\$ 1.25-\$ 1.50	0.1	5.69	\$ 1.50
\$ 2.71-\$ 4.26	0.1	7.90	3.43
\$ 5.23-\$ 6.95	—	7.16	6.14
\$13.06-\$16.00	0.1	6.33	15.99
Totals	0.3		7.88

These options will expire if not exercised at specific dates through December 2013.

Eligible employees also participate in ON Semiconductor's 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company's full-time employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of ON Semiconductor common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. During each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to \$6,250 divided by the fair market value of the stock on the first day of the offering period. During 2003, 2002 and 2001, employees purchased approximately 117,000, 185,000 and 89,000 shares under the plan, respectively.

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of
ON Semiconductor Corporation)
FINANCIAL STATEMENTS
As of December 31, 2003 and 2002 and for
the Years Ended December 31, 2003, 2002 and 2001

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholder
of SCG Philippines, Incorporated

In our opinion, the accompanying balance sheet and the related statements of operations, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of SCG Philippines, Incorporated (an indirect wholly-owned subsidiary of ON Semiconductor Corporation) at December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

PRICEWATERHOUSECOOPERS LLP

Phoenix, Arizona
February 2, 2004, except for
the third paragraph of Note 2 for
which the date is February 9, 2004

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

BALANCE SHEET

	December 31,	
	2003	2002
	(in millions)	
ASSETS		
Cash and cash equivalents	\$ 3.0	\$ 4.6
Other current assets	1.5	2.4
Due from affiliates	15.0	7.0
	<hr/>	<hr/>
Total current assets	19.5	14.0
Property, plant and equipment, net	24.8	31.0
Income taxes receivable	0.5	—
Other assets	0.3	0.3
	<hr/>	<hr/>
Total assets	\$ 45.1	\$ 45.3
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Accounts payable	\$ 3.0	\$ 2.6
Accrued expenses	0.5	0.5
Due to affiliates	0.1	0.2
Income taxes payable	—	0.4
Deferred income taxes	0.2	—
	<hr/>	<hr/>
Total current liabilities	3.8	3.7
Other long-term liabilities	0.3	0.2
Deferred income taxes	0.4	0.6
	<hr/>	<hr/>
Total liabilities	4.5	4.5
	<hr/>	<hr/>
Commitments and contingencies (See Note 10)	—	—
	<hr/>	<hr/>
Common stock	69.1	68.2
Accumulated deficit	(28.5)	(27.4)
	<hr/>	<hr/>
Total stockholder's equity	40.6	40.8
	<hr/>	<hr/>
Total liabilities and stockholder's equity	\$ 45.1	\$ 45.3
	<hr/>	<hr/>

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

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

STATEMENT OF OPERATIONS

	Year Ended December 31,		
	2003	2002	2001
		(in millions)	
Sales to affiliates	\$ 31.7	\$ 34.1	\$ 32.4
Cost of sales to affiliates	29.1	31.0	28.0
Gross profit	2.6	3.1	4.4
Operating expenses:			
General and administrative	2.6	2.7	3.3
Restructuring, asset impairments and other, net	0.1	2.3	2.1
Total operating expenses	2.7	5.0	5.4
Operating loss	(0.1)	(1.9)	(1.0)
Interest income	—	0.1	—
Loss before income taxes	(0.1)	(1.8)	(1.0)
Income tax benefit (provision)	(1.0)	(1.4)	1.0
Net loss	\$ (1.1)	\$ (3.2)	\$ (0.0)

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

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
STATEMENT OF STOCKHOLDER'S EQUITY

	<u>Common Stock</u>	<u>Accumulated Deficit</u>	<u>Total</u>
		(in millions)	
Balance at December 31, 2000	66.3	2.4	68.7
Contributed services by Parent	1.1	—	1.1
Dividends paid	—	(20.6)	(20.6)
Comprehensive loss:			
Net loss	—	—	—
Balance at December 31, 2001	67.4	(18.2)	49.2
Contributed services by Parent	0.8	—	0.8
Dividends paid	—	(6.0)	(6.0)
Comprehensive loss:			
Net loss	—	(3.2)	(3.2)
Balance at December 31, 2002	68.2	(27.4)	40.8
Contributed services by Parent	0.9	—	0.9
Comprehensive loss:			
Net loss	—	(1.1)	(1.1)
Balance at December 31, 2003	69.1	(28.5)	40.6

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

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2003	2002	2001
	(in millions)		
Cash flows from operating activities:			
Net loss	\$ (1.1)	\$ (3.2)	\$ —
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	7.2	10.0	10.9
Write-off of receivable from Motorola	—	2.3	—
Non-cash impairment write-down of property, plant and equipment	0.1	—	0.6
Non-cash support costs provided by Parent	0.9	0.8	1.1
Deferred income taxes	—	—	(1.0)
Other	0.4	(0.6)	1.0
Changes in assets and liabilities:			
Income taxes receivable	(0.5)	0.4	(0.4)
Other assets	—	2.8	(0.4)
Due from affiliates	(8.0)	(4.1)	(2.8)
Accounts payable	0.4	(0.3)	(1.4)
Accrued expenses	—	0.2	(1.6)
Due to affiliates	(0.1)	(0.1)	0.2
Income taxes payable	(0.4)	0.4	—
Other long-term liabilities	0.1	0.1	0.1
Net cash provided by (used in) operating activities	(1.0)	8.7	6.3
Cash flows from investing activities:			
Purchases of property, plant and equipment	(0.6)	(1.6)	(1.5)
Net cash used in investing activities	(0.6)	(1.6)	(1.5)
Cash flows from financing activities:			
Payment of dividends	—	(6.0)	(20.6)
Net cash used in financing activities	—	(6.0)	(20.6)
Net increase (decrease) in cash and cash equivalents	(1.6)	1.1	(15.8)
Cash and cash equivalents, beginning of period	4.6	3.5	19.3
Cash and cash equivalents, end of period	\$ 3.0	\$ 4.6	\$ 3.5

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

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

SCG Philippines, Incorporated (the "Company") is a wholly-owned subsidiary of Semiconductor Components Industries, LLC ("SCI LLC" or "Parent"), which is a wholly-owned subsidiary of ON Semiconductor Corporation ("ON Semiconductor"). The Company is located in Carmona, Philippines and is engaged in the manufacture of semiconductor products. Formerly known as the Semiconductor Components Group of the Semiconductor Products Sector of Motorola, Inc., ON Semiconductor was a wholly-owned subsidiary of Motorola Inc. ("Motorola") prior to its August 4, 1999 recapitalization (the "Recapitalization"). ON Semiconductor continues to hold, through direct and indirect subsidiaries, substantially all the assets and operations of the Semiconductor Components Group of Motorola's Semiconductor Products Sector. The Company's common stock consists of 3,000,000 authorized shares, 2,250,000 shares of which were issued to SCI LLC in connection with the Recapitalization and remain outstanding.

SCI LLC incurs certain manufacturing and information technology support costs that directly benefit its various manufacturing affiliates including the Company. Although such costs are not recorded in the Company's local statutory accounts and are not deductible for local tax purposes, they have been allocated to the Company and reflected in the accompanying financial statements as cost of sales with an offsetting capital contribution from SCI LLC. The allocations utilized in arriving at the amounts reflected in the accompanying financial statements are based on assumptions that management believes are reasonable in the circumstances; however, such allocations are not necessarily indicative of the costs that would have been incurred by the Company had it operated as a stand-alone entity.

Note 2: Liquidity

During the year ended December 31, 2003, ON Semiconductor incurred a net loss of \$166.7 million compared to net losses of \$141.9 and \$831.4 million in 2002 and 2001, respectively. ON Semiconductor's net results included restructuring, asset impairments and other, net of \$61.2 million, \$27.7 million and \$150.4 million in 2003, 2002 and 2001, respectively, as well as interest expense of \$151.1 million \$152.5 million and \$143.6 million, respectively. ON Semiconductor's operating activities provided cash of \$45.7 in 2003 and \$46.4 million in 2002 and used cash of \$116.4 million in 2001.

At December 31, 2003, ON Semiconductor had \$186.6 million in cash and cash equivalents, net working capital of \$212.5 million, term or revolving debt of \$1,302.9 million and a stockholders' deficit of \$644.6 million. ON Semiconductor's long-term debt includes \$320.1 million under its senior bank facilities; \$191.6 million (net of discount) of its 13% senior secured notes due 2010; \$292.6 million (net of discount) of its 12% senior secured notes due 2008; \$260.0 million of its 12% senior subordinated notes due 2009; \$139.9 million under a 10% junior subordinated note payable to Motorola due 2011; \$48.0 million under a loan facility with a Chinese bank due 2013; \$24.3 million under a note payable to a Japanese bank due 2010; \$20.0 million under a loan facility with a Chinese bank due 2006; and \$6.4 million under a capital lease obligations. ON Semiconductor was in compliance with all of the covenants contained in its various debt agreements at December 31, 2003 and expects to remain in compliance over the next twelve months.

On February 9, 2004, ON Semiconductor completed a public offering of common stock resulting in net proceeds of \$226.7 million. The net proceeds are expected to be used to redeem \$70.0 million principal amount of ON Semiconductor's 13% senior secured notes due 2010 and \$105.0 million principal amount of the 12% senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes. The remaining proceeds will be used by ON Semiconductor for general corporate purposes.

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

If ON Semiconductor fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to ON Semiconductor. Management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund ON Semiconductor's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2004. To the extent that results or events differ from ON Semiconductor's financial projections and business plans, the Company's liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of such instruments.

Property, Plant and Equipment

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

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

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Revenue Recognition

The Company recognizes revenue when assembly and test services are completed on inventory consigned in from affiliates and the related products are shipped to the affiliated company. Revenues include the cost of assembly and test services performed plus a markup based on an intercompany transfer pricing agreement.

Stock-Based Compensation

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

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net loss for 2003, 2002, and 2001 would have been increased to the pro forma amounts indicated below (in millions):

	Year Ended December 31,		
	2003	2002	2001
Net loss, as reported	\$(1.1)	\$(3.2)	\$(0.0)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(0.3)	(0.3)	(0.2)
Pro forma net loss	\$(1.4)	\$(3.5)	\$(0.2)

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

Employee Stock Options	2003	2002	2001
Expected life (in years)	5	5	5
Risk-free interest rate	3.11%	4.35%	4.93%
Volatility	0.89	0.70	0.70
Employee Stock Purchase Plan	2003	2002	2001
Expected life (in years)	0.25	0.25	0.25
Risk-free interest rate	1.09%	1.68%	4.26%
Volatility	0.80	0.70	0.70

The weighted-average estimated fair value of employee stock options granted during 2003, 2002 and 2001 was \$2.73, \$1.94 and \$3.26 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under ON Semiconductor's 2000 Employee Stock Purchase Plan during 2003, 2002 and 2001 was \$0.58, \$0.51 and \$1.11 per share, respectively.

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Income Taxes

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

Foreign Currencies

The Company utilizes the U.S. dollar as its functional currency. The net effects of gains and losses from foreign currency transactions and from the translation of foreign currency financial statements into U.S. dollars are included in current operations.

Defined Benefit Plan

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

Related Party Transactions

The Company has extensive transactions and relationships with ON Semiconductor and its affiliates including intercompany pricing agreements and certain manufacturing and information technology support agreements. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

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", the Company records the appropriate liability when the amount is deemed probable and estimable.

Recent Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not impact the Company's financial condition or results of operations.

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer that must be classified as liabilities and carried at liquidation value. Such freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase the issuer's equity shares by transferring assets, and certain obligations to issue a variable number of shares. The Company's adoption of SFAS No. 150 did not impact its financial condition or results of operations.

In January 2003, the FASB issued Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51". FIN No. 46 requires certain variable interest entities ("VIE's") be consolidated by the primary beneficiary, as that term is defined in FIN No. 46. The Company's adoption of FIN No. 46 did not impact its financial condition or results of operations.

In December 2003, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits (revised 2003)". SFAS No. 132 revises employers' disclosures about pension plans and other postretirement benefit plans. It requires additional disclosures to those in the original SFAS No. 132 about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. SFAS No. 132, which also requires new disclosures for interim periods beginning after December 15, 2003, is effective for fiscal years ending after December 15, 2003. The Company adopted this Statement for the year ended December 31, 2003 and has included the required disclosures in Note 7 "Employee Benefit Plans".

Note 4: Restructuring, Asset Impairments and Other, net

June 2003

In June 2003, the Company identified certain machinery and equipment that would no longer be utilized and recorded a charge of \$0.1 million to write-down the remaining carrying value of these assets to their net realizable value.

June 2002

During the second quarter of 2002, ON Semiconductor and Motorola reached a settlement of various contractual issues in exchange for a cash payment from Motorola of \$10.6 million which resulted in a related gain to ON Semiconductor of \$12.4 million. Because the majority of the contractual issues were between SCI LLC and Motorola, the related gain was recorded entirely on the books of SCI LLC. As a part of the settlement included forgiveness of a receivable due from Motorola, the Company recorded a \$2.3 million write-off, which is included in restructuring, asset impairments and other, net in the statement of operations for the year ended December 31, 2002.

June 2001

In June 2001, the Company recorded charges totaling \$0.6 million to cover employee separation costs associated with the termination of approximately 30 employees. All impacted employees were terminated and the Company released the remaining \$0.3 million reserve to income during the fourth quarter of 2001 as the actual severance costs were less than originally estimated.

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

March 2001

In March 2001, the Company recorded charges totaling \$1.8 million for costs associated with a restructuring program. The charges included \$1.2 million to cover employee separation costs associated with the termination of approximately 100 employees as well as \$0.6 million to write off equipment that could no longer be utilized.

The employee separation costs reflected reductions in the Company's manufacturing, general and administrative staffing levels. All impacted employees have been terminated under this restructuring program.

Note 5: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31,	
	2003	2002
Other current assets:		
Value added tax receivable	\$ 0.7	\$ 1.3
Other	0.8	1.1
	<u>\$ 1.5</u>	<u>\$ 2.4</u>
Property, plant and equipment, net:		
Buildings	\$ 27.0	\$ 27.0
Machinery and equipment	59.5	65.7
	<u>86.5</u>	<u>92.7</u>
Total property, plant and equipment	86.5	92.7
Less: Accumulated depreciation	(61.7)	(61.7)
	<u>\$ 24.8</u>	<u>\$ 31.0</u>
Accrued expenses:		
Current portion of pension liability	\$ 0.2	\$ 0.2
Accrued payroll	0.3	0.2
Other	—	0.1
	<u>\$ 0.5</u>	<u>\$ 0.5</u>

Depreciation expense for property, plant and equipment totaled \$6.3 million, \$10.0 million and \$10.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 6: Income Taxes

The income tax provision (benefit) is as follows (in millions):

	Year Ended December 31,		
	2003	2002	2001
Current	\$ 1.0	\$ 1.5	\$ 0.1
Deferred	—	(0.1)	(1.1)
	<u>\$ 1.0</u>	<u>\$ 1.4</u>	<u>\$(1.0)</u>

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

A reconciliation of the Philippines statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2003	2002	2001
Philippines federal statutory rate	(32.0)%	(32.0)%	(32.0)%
Increase (decrease) resulting from:			
Tax holiday	—	—	(33.1)
Foreign currency remeasurement	750.7	98.9	72.9
Non-deductible corporate allocation	288.0	14.2	28.3
Prior year taxes	—	—	(125.4)
Other	(6.7)	(1.9)	(6.3)
	<u>1,000.0%</u>	<u>79.2%</u>	<u>(95.6)%</u>

Deferred tax assets (liabilities) are as follows (in millions):

	Year Ended December 31,	
	2003	2002
Unrealized foreign exchange gains	\$ —	\$(0.1)
Reserves and accruals	—	0.3
Depreciation	(0.8)	(1.0)
Other	0.2	0.2
Net deferred tax liability	<u>\$(0.6)</u>	<u>\$(0.6)</u>

Cash paid for income taxes was \$1.9 million, \$0.6 million and \$0.2 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company files income tax returns with the taxing authorities in the various jurisdictions in which it operates. Certain of these income tax returns remain subject to audit by the local tax authorities. Management believes that the resolution of any issues raised by such taxing authorities, including application of any related determinations to subsequent open years, will not have an adverse effect on the Company's financial condition, results of operations and cash flows.

Note 7: Employee Benefit Plan

Defined Benefit Plan

The Company has a pension plan that covers most employees. The benefit formula is dependent upon employee years of service. The Company's policy is to fund the plan in accordance with the requirements and regulations of Philippine labor laws. Benefits under this pension plan are valued using the projected unit credit cost method. The Company expects to contribute \$0.2 million to the pension plan in 2004 based on its current assessment of the economic environment.

In 2003, the Company changed its method of accounting for unrecognized net actuarial gains or losses relating to its defined benefit pension obligations. Historically, the Company amortized its net unrecognized actuarial gains or losses over the average remaining service lives of active plan participants, to the extent that

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

such net gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. The Company no longer defers actuarial gains or losses but will recognize such gains and losses during the fourth quarter of each year, which is the period the Company's annual pension plan actuarial valuations are prepared with a measurement date of December 31. Management believes that this change is to a preferable accounting method as actuarial gains or losses will be recognized currently in income rather than being deferred. This change did not have a material impact on the Company.

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

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

	Year Ended December 31,		
	2003	2002	2001
Service cost	\$ 0.2	\$ 0.2	\$ 0.2
Interest cost	0.2	0.3	0.3
Expected return on plan assets	(0.1)	(0.2)	(0.2)
Amortization of prior service cost	—	0.1	—
Total net periodic pension cost	\$ 0.3	\$ 0.4	\$ 0.3
Weighted average assumption			
Discount rate	11.00%	12.00%	12.00%
Expected return on plan assets	10.00%	12.00%	12.00%
Rate of compensation increase	9.00%	10.00%	10.00%
		December 31,	
		2003	2002
Change in projected benefit obligation			
Projected benefit obligation at the beginning of the year		\$ 2.2	\$ 2.0
Service cost		0.2	0.2
Interest cost		0.2	0.3
Actuarial gain		—	(0.1)
Benefits paid		—	(0.1)
Translation gain		—	(0.1)
Projected benefit obligation at the end of the year		2.6	2.2
Accumulated benefit obligation at the end of the year		1.0	0.7
Change in plan assets			
Fair value of plan assets at the beginning of the year		\$ 1.4	\$ 1.2
Actual return on plan assets		0.2	0.1
Benefits paid		—	(0.1)
Employer contributions		0.2	0.3
Translation gain		—	(0.1)
Fair value of plan assets at the end of the year		1.8	1.4
Net amount recognized			
Funded status		(0.8)	(0.8)
Unrecognized prior service cost		0.3	0.4
Net amount recognized		(0.5)	(0.4)
Amounts recognized in the statement of financial position			
Accrued benefit liability		(0.2)	(0.2)
Other long-term liabilities		(0.3)	(0.2)
Net amount recognized		(0.5)	(0.4)
Weighted average assumptions at the end of the year			
Discount rate		10.00%	11.00%
Rate of compensation increase		8.00%	9.00%

Note 8: Foreign Currency Exchange Contracts

The Company's foreign currency exposures are included in ON Semiconductor's worldwide foreign currency exposure management program. ON Semiconductor aggregates the forecasted foreign currency exposures for each of its subsidiaries on a monthly basis and enters into forward currency contracts in order to reduce its overall exposure to the effects of currency fluctuations on its results of operations and cash flows. The Company's net foreign currency transaction losses included in the accompanying statement of operations for the years ended December 31, 2003, 2002 and 2001 are \$0.1 million, \$0.0 million and \$0.4 million, respectively.

Note 9: Stock Options

Certain employees of the Company participate in ON Semiconductor stock option plans.

Generally, the options granted under these plans vest over a period of four years. Upon the termination of an option holder's employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability).

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

	2003		2002		2001	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	0.4	\$ 6.15	0.3	\$ 7.26	0.2	\$ 9.04
Grants	0.2	3.69	0.1	3.17	0.1	5.27
Exercises	—	1.65	—	—	—	—
Cancellations	(0.1)	4.47	—	—	—	—
Outstanding at end of year	0.5	\$ 5.70	0.4	\$ 6.15	0.3	\$ 7.26
Exercisable at end of year	0.1	\$ 9.62	0.1	\$ 8.13	0.1	\$ 5.06
Weighted average fair value of options granted during the period		\$ 2.73		\$ 1.94		\$ 3.26

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

The following tables summarize options outstanding and options exercisable at December 31, 2003:

	Outstanding Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
\$1.25-\$2.71	0.1	8.78	\$ 1.30
\$3.22-\$6.95	0.3	8.69	4.74
\$13.063-\$16.00	0.1	6.40	15.41
Totals	0.5		5.70

	Exercisable Options		
	Number Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price
Range of Exercise Prices			
\$1.25-\$2.71	—	5.80	\$ 1.55
\$3.22-\$6.95	—	7.52	4.64
\$13.063-\$16.00	0.1	6.41	15.38
Totals	0.1		9.62

These options will expire if not exercised at specific dates through November 2013.

2000 Employee Stock Purchase Plan

Eligible employees also participate in ON Semiconductor's 2000 Employee Stock Purchase Plan. Subject to local legal requirements, each of the Company's full-time employees has the right to elect to have up to 10% of their payroll applied towards the purchase of shares of ON Semiconductor common stock at a price equal to 85% of the fair market value of such shares as determined under the plan. During each quarterly offering period, employees may not purchase stock exceeding the lesser of (i) 500 shares, or (ii) the number of shares equal to \$6,250 divided by the fair market value of the stock on the first day of the offering period. During 2003, 2002 and 2001, employees purchased approximately 11,000, 13,000 and 11,300 shares under the plan, respectively.

SCG PHILIPPINES, INCORPORATED
(An Indirect Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Note 10: Commitments and Contingencies**Leases**

The following is a schedule by year of future minimum lease obligations under non-cancelable operating leases as of December 31, 2003 (in millions):

Year ending December 31, 2003:	
2004	\$0.5
2005	0.3
2006	0.1
	<hr/>
	\$0.9
	<hr/>

Legal Matters

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

Common Stock Collateral Pledge

On May 6, 2002, ON Semiconductor and SCI LLC (collectively, the "Issuers") issued \$300 million principal amount of second lien notes due 2008. The notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by ON Semiconductor's domestic restricted subsidiaries that are guarantors under its senior subordinated notes. In addition, the notes and guarantees are secured on a second priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its first-tier foreign subsidiaries, including the Company, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

On March 3, 2003, the Issuers issued \$200.0 million principal amount of first-lien senior secured notes due 2010. The notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor (other than SCI LLC). The notes and guarantees are secured on a first-priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries, 65% of the capital stock or other equity interests of its first-tier foreign subsidiaries, including the Company, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of
ON Semiconductor Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2003 and 2002 and for
the Years Ended December 31, 2003, 2002 and 2001

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholder
of SCG (China) Holding Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of SCG (China) Holding Corporation and subsidiary (a wholly-owned subsidiary of ON Semiconductor Corporation) at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

PRICEWATERHOUSECOOPERS LLP

Phoenix, Arizona
February 2, 2004, except for the
third paragraph of Note 2 for which
the date is February 9, 2004

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED BALANCE SHEET

	December 31,	
	2003	2002
	(in millions)	
ASSETS		
Cash and cash equivalents	\$ 4.9	\$ 8.0
Receivables	4.2	3.4
Inventories	4.3	3.5
Other current assets	1.8	3.1
Due from affiliates	21.7	0.3
	<hr/>	<hr/>
Total current assets	36.9	18.3
Property, plant and equipment, net	119.2	131.2
	<hr/>	<hr/>
Total assets	\$ 156.1	\$ 149.5
	<hr/>	<hr/>
LIABILITIES, MINORITY INTEREST AND STOCKHOLDER'S EQUITY		
Accounts payable	\$ 11.3	\$ 6.9
Accrued expenses	1.1	0.8
Due to affiliates	9.2	—
Current portion of long-term debt	4.8	10.5
	<hr/>	<hr/>
Total current liabilities	26.4	18.2
Notes payable to affiliate	—	63.3
Long-term debt	63.2	9.5
	<hr/>	<hr/>
Total liabilities	89.6	91.0
	<hr/>	<hr/>
Commitments and contingencies (See Note 7)	—	—
	<hr/>	<hr/>
Minority interest in consolidated subsidiary	26.0	22.8
	<hr/>	<hr/>
Common stock (\$0.01 par value, 1,000 shares authorized, 1,000 shares issued and outstanding)	—	—
Additional paid-in capital	24.2	24.2
Retained earnings	16.3	11.5
	<hr/>	<hr/>
Total stockholder's equity	40.5	35.7
	<hr/>	<hr/>
Total liabilities, minority interest and stockholder's equity	\$ 156.1	\$ 149.5
	<hr/>	<hr/>

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

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended December 31,		
	2003	2002	2001
	(in millions)		
Revenues:			
External revenues	\$ 8.2	9.2	8.7
Revenues from affiliates	116.6	\$88.8	\$52.0
Total revenues	124.8	98.0	60.7
Cost of sales	112.8	85.4	47.7
Gross profit	12.0	12.6	13.0
Operating expenses:			
General and administrative	0.4	0.3	0.3
Total operating expenses	0.4	0.3	0.3
Operating income	11.6	12.3	12.7
Interest expense	(2.7)	(4.3)	(6.1)
Other income	—	0.5	—
Other expenses, net	(2.7)	(3.8)	(6.1)
Income before income taxes and minority interest	8.9	8.5	6.6
Income tax provision	(0.9)	(0.9)	(0.1)
Minority interest	(3.2)	(2.8)	(2.5)
Net income	4.8	4.8	4.0

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

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	(in millions)			
Balance at December 31, 2000	\$ —	\$ 24.2	\$ 3.0	\$27.2
Comprehensive income				
Net income	—	—	4.0	4.0
Balance at December 31, 2001	—	24.2	7.0	31.2
Dividends paid	—	—	(0.3)	(0.3)
Comprehensive income				
Net income	—	—	4.8	4.8
Balance at December 31, 2002	—	24.2	11.5	35.7
Comprehensive income				
Net income	—	—	4.8	4.8
Balance at December 31, 2003	<u>\$ —</u>	<u>\$ 24.2</u>	<u>\$ 16.3</u>	<u>\$40.5</u>

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

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2003	2002	2001
	(in millions)		
Cash flows from operating activities:			
Net income	\$ 4.8	\$ 4.8	\$ 4.0
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16.7	14.6	11.3
Minority interest	3.2	2.8	2.5
Other	0.1	—	—
Changes in assets and liabilities:			
Receivables	(0.8)	(0.3)	(0.5)
Inventories	(0.8)	(1.6)	(0.1)
Other assets	0.2	(2.2)	(1.6)
Due from affiliates	(21.4)	(0.3)	7.3
Accounts payable	4.4	2.7	(6.6)
Accrued expenses	0.3	0.3	(0.1)
Due to affiliates	9.2	(4.7)	4.7
Net cash provided by operating activities	15.9	16.1	20.9
Cash flows from investing activities:			
Purchases of property, plant and equipment	(3.7)	(14.0)	(31.1)
Net cash used in investing activities	(3.7)	(14.0)	(31.1)
Cash flows from financing activities:			
Proceeds from debt issuance	48.0	—	9.5
Proceeds from intercompany long term debt	—	—	5.0
Repayment of intercompany long term debt	(63.3)	—	—
Dividend to Parent	—	(0.3)	—
Net cash provided by (used in) financing activities	(15.3)	(0.3)	14.5
Net increase (decrease) in cash and cash equivalents	(3.1)	1.8	4.3
Cash and cash equivalents, beginning of period	8.0	6.2	1.9
Cash and cash equivalents, end of period	\$ 4.9	\$ 8.0	\$ 6.2
Cash paid for:			
Interest	\$ 2.7	\$ 4.3	\$ 6.0
Income taxes	0.2	1.3	—

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

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Background and Basis of Presentation

SCG (China) Holding Corporation (the “Company”) is a wholly-owned subsidiary of ON Semiconductor Corporation (“ON Semiconductor” or “Parent”). The Company’s primary asset is its majority ownership in Leshan-Phoenix Semiconductor Company Limited (“Leshan”), a joint venture with Leshan Radio Company, Ltd., (“LRC”) located in Leshan, China that is engaged in the manufacture of semiconductor products. Leshan purchases die from ON Semiconductor as well as third parties, converts such die into semiconductor products and the sells such products to ON Semiconductor and LRC. Pursuant to the related agreement, requests for production capacity are made to the board of directors of Leshan by ON Semiconductor and LRC. These requests represent purchase commitments of ON Semiconductor and LRC; however, each may elect to pay the cost associated with the unused capacity (which is generally equal to the fixed cost of the capacity), in lieu of the commitment. ON Semiconductor committed to purchase 82%, 85% and 81% of Leshan’s production capacity in 2003, 2002 and 2001, respectively, and is currently committed to purchase 86% of expected 2004 production. In 2003, 2002 and 2001, ON Semiconductor purchased 90%, 76% and 43%, respectively, of Leshan’s production. Because ON Semiconductor purchased less than it’s committed amounts in certain months in 2003, 2002 and 2001, it incurred \$0.5 million, \$1.5 million and \$6.4 million in underutilization charges, respectively. ON Semiconductor and LRC have guaranteed Leshan a fixed return on equity (15% in 2003, 2002 and 2001) and its related sales prices have been determined accordingly.

Formerly known as the Semiconductor Components Group of the Semiconductor Products Sector of Motorola, Inc., ON Semiconductor was a wholly-owned subsidiary of Motorola Inc. (“Motorola”) prior to its August 4, 1999 recapitalization (the “Recapitalization”). ON Semiconductor continues to hold, through direct and indirect subsidiaries, substantially all the assets and operations of the Semiconductor Components Group of Motorola’s Semiconductor Products Sector. The Company was capitalized by the issuance of 1,000 shares of common stock to ON Semiconductor in connection with the Recapitalization.

In the second quarter of 2003, the Company adopted FASB Interpretation No. 46 (“FIN No. 46”), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51”. 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 meets the definition of a VIE and that the Company (through its relationship with ON Semiconductor) is the primary beneficiary; therefore, the investment in Leshan is consolidated in accordance with FIN No. 46. The Company had previously accounted for its investment in Leshan using the equity method. While consolidation of the its investment in Leshan did not impact the Company’s net income (loss) or stockholders’ equity (deficit), financial information of prior periods has been revised for comparative purposes as allowed by FIN No. 46.

Note 2: Liquidity

During the year ended December 31, 2003, ON Semiconductor incurred a net loss of \$166.7 million compared to net losses of \$141.9 and \$831.4 million in 2002 and 2001, respectively. ON Semiconductor’s net results included restructuring, asset impairments and other, net of \$61.2 million, \$27.7 million and \$150.4 million in 2003, 2002 and 2001, respectively, as well as interest expense of \$151.1 million, \$152.5 million and \$143.6 million, respectively. ON Semiconductor’s operating activities provided cash of \$45.7 in 2003 and \$46.4 million in 2002 and used cash of \$116.4 million in 2001.

At December 31, 2003, ON Semiconductor had \$186.6 million in cash and cash equivalents, net working capital of \$212.5 million, term or revolving debt of \$1,302.9 million and a stockholders’ deficit of \$644.6 million. ON Semiconductor’s long-term debt includes \$320.1 million under its senior bank facilities; \$191.6

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

million (net of discount) of its 13% senior secured notes due 2010; \$292.6 million (net of discount) of its 12% senior secured notes due 2008; \$260.0 million of its 12% senior subordinated notes due 2009; \$139.9 million under a 10% junior subordinated note payable to Motorola due 2011; \$48.0 million under a loan facility with a Chinese bank due 2013; \$24.3 million under a note payable to a Japanese bank due 2010; \$20.0 million under a loan facility with a Chinese bank due 2006; and \$6.4 million under a capital lease obligations. ON Semiconductor was in compliance with all of the covenants contained in its various debt agreements at December 31, 2003 and expects to remain in compliance over the next twelve months.

On February 9, 2004, ON Semiconductor completed a public offering of common stock resulting in net proceeds of \$226.7 million. The net proceeds are expected to be used to redeem \$70.0 million principal amount of the Company's 13% senior secured notes due 2010 and \$105.0 million principal amount of the 12% senior secured notes due 2008 at a redemption price of 112% of the principal amount of such notes. The remaining proceeds will be used for general corporate purposes.

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

If ON Semiconductor fails to generate sufficient cash from operations, it may need to raise additional equity or borrow additional funds to achieve its longer term objectives. There can be no assurance that such equity or borrowings will be available or, if available, will be at rates or prices acceptable to ON Semiconductor. Management believes that cash flow from operating activities coupled with existing cash balances will be adequate to fund ON Semiconductor's operating and capital needs as well as enable it to maintain compliance with its various debt agreements through December 31, 2004. To the extent that results or events differ from ON Semiconductor's financial projections and business plans, the Company's liquidity may be adversely impacted.

Note 3: Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of such instruments.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated over estimated useful lives of 30-40 years for buildings and 3-20 years for machinery and equipment using accelerated and straight-line methods.

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Expenditures for maintenance and repairs are charged to operations in the year in which the expense is incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized.

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

Revenue Recognition

The Company recognizes revenue when semiconductor products are shipped to affiliated companies or third parties. Revenues from affiliates include the cost of raw materials and assembly and test services performed plus a markup based on an intercompany transfer pricing agreement.

Stock-Based Compensation

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

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net income for 2003 and 2002 would not have been materially different from the net income reported.

The fair value of each option grant has been estimated at the date of grant using a Black-Scholes option-pricing model with weighted-average assumptions of a 5 year expected life in both 2003 and 2002, 3.14% and 4.40% risk-free interest rate and 1.01 and 0.7 volatility in 2003 and 2002, respectively.

Certain employees of the Company participate in ON Semiconductor stock option plans. During 2003, there were 4,000 options granted to such employees with a weighted average fair value of \$3.98. As of December 31, 2003, there were 27,135 shares of options outstanding of which 5,844 were exercisable. There were no stock option grants in 2001. Generally, the options granted under these plans vest over a period of four years. Upon the termination of an option holder's employment, all unvested options will immediately terminate and vested options will generally remain exercisable for a period of 90 days after date of termination (one year in the case of death or disability).

The weighted-average estimated fair value of employee stock options granted during 2003 and 2002 was \$3.98 and \$1.97 per share, respectively.

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

Income Taxes

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

Foreign Currencies

The Company utilizes the U.S. dollar as its functional currency. The net effects of gains and losses from foreign currency transactions and from the translation of foreign currency financial statements into U.S. dollars are included in current operations.

Related Party Transactions

The Company has extensive transactions and relationships with ON Semiconductor and its affiliates including intercompany pricing agreements and certain manufacturing and information technology support agreements. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

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", the Company records the appropriate liability when the amount is deemed probable and estimable.

Recent Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No 149 amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not impact the Company's financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 specifies that freestanding financial instruments within its scope constitute obligations of the issuer that must be classified as liabilities and carried at liquidation value. Such freestanding financial instruments include mandatorily redeemable financial instruments, obligations to repurchase the issuer's equity shares by transferring assets, and certain obligations to issue a variable number of shares. Equity securities of consolidated entities that meet the definition of a mandatorily redeemable security by virtue of having a finite life ("mandatorily redeemable minority interests") are included in the scope of SFAS

SCG (CHINA) HOLDING CORPORATION
(A Wholly-Owned Subsidiary of ON Semiconductor Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — Continued

No. 150. The minority interest associated with the Company's investment in Leshan is a mandatorily redeemable minority interest within the scope of SFAS No. 150 by virtue of Leshan's finite life of 50 years as specified in its organizational documents. In November 2003, the FASB issued Staff Position No. 150-3 which deferred the measurement and classification provisions of SFAS No. 150 relating to Leshan pending further action by the FASB. The Company is required to disclose the liquidation value of the Leshan minority interest which the Company believes approximates the related carrying value of \$26.0 million as of December 31, 2003. The Company's adoption of the other provisions of SFAS No. 150 in 2003 did not impact its financial condition or results of operations.

Note 4: Balance Sheet Information

Balance sheet information is as follows (in millions):

	December 31,	
	2003	2002
Inventories		
Work-in-process	\$ 4.2	\$ 3.5
Finished goods	0.1	—
	<u>\$ 4.3</u>	<u>\$ 3.5</u>
Other current assets:		
Value added tax receivable	\$ 0.5	\$ 2.2
Other	1.3	0.9
	<u>\$ 1.8</u>	<u>\$ 3.1</u>
Property, plant and equipment, net:		
Land	\$ 3.3	\$ 3.3
Buildings	24.7	23.9
Machinery and equipment	148.2	145.6
	<u>176.2</u>	<u>172.8</u>
Less: Accumulated depreciation	(57.0)	(41.6)
	<u>\$ 119.2</u>	<u>\$ 131.2</u>

Depreciation expense related to property, plant and equipment totaled \$15.6 million, \$13.8 million and \$10.5 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Note 5: Income Taxes

Geographic source of income (loss) before income taxes and minority interest are as follows (in millions):

	Year Ended December 31,		
	2003	2002	2001
United States	\$ —	\$0.6	\$ —
Foreign	8.9	7.9	6.6
	<u>\$8.9</u>	<u>\$8.5</u>	<u>\$6.6</u>

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

	Year Ended December 31,		
	2003	2002	2001
Current	\$0.9	\$0.9	\$0.1
Deferred	—	—	—
	\$0.9	\$0.9	\$0.1

A reconciliation of the China statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2003	2002	2001
U.S federal statutory rate	35.0 %	35.0 %	35.0 %
Increase (decrease) resulting from:			
Foreign rate differential	(25.0)	(25.0)	(25.0)
Other	0.1	0.6	(8.5)
	10.1 %	10.6 %	1.5 %

Income taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries (approximately \$35.7 million at December 31, 2003) over which it has sufficient influence to control the distribution of such earnings and has determined that such earnings have been reinvested indefinitely. These earnings could become subject to additional tax if they were remitted as dividends, if foreign earnings were lent to any of the Company's subsidiaries, or if the Company sells its investment in such subsidiaries. The Company estimates that repatriation of these foreign earnings would generate additional foreign tax withholdings of \$7.3 million. Cash paid for income taxes was \$0.2 million, \$1.3 million and \$0.0 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The Company files income tax returns with the taxing authorities in the various jurisdictions in which it operates. Certain of these income tax returns remain subject to audit by the local tax authorities. Management believes that the resolution of any issues raised by such taxing authorities, including application of any related determinations to subsequent open years, will not have an adverse effect on the Company's financial condition or results of operations.

Note 6: Long Term Debt

In connection with the Recapitalization described in Note 1, ON Semiconductor loaned the Company \$28.3 million, at an interest rate of 3.5%, to refinance third-party non-recourse loans. During 2001 and 2000, ON Semiconductor loaned the Company an additional \$5.0 million and \$30.0 million, respectively, to finance facility expansion. The loan of \$63.3 was fully repaid by the Company in 2003.

The Company's long-term debt includes a \$20.0 million loan facility from a Chinese bank. Aggregate loans under this facility, which was entered into in November 2000, are comprised of \$16 million of borrowings denominated in U.S. dollars and \$4 million of borrowings denominated in Chinese Renminbi (based on year-end exchange rates). Interest on these loans is payable quarterly and accrues at a variable rate based on published market rates in China for six-year term loans. During the fourth quarter of 2003, the Company exercised its

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ability to extend the maturity of this loan for three years under the same terms and conditions, thereby extending scheduled principal payments to \$10.5 million due in the fourth quarter of 2006 and \$9.5 million due in the first quarter of 2007. The effective interest rate for loan denominated in U.S dollars is 2.63% and 2.94% at December 31, 2003 and December 31, 2002, respectively. The effective interest rate for loan denominated in Chinese Renminbi is 5.06% and 5.76% at December 31, 2003 and December 31, 2002, respectively.

The Company's long-term debt also includes a \$48.0 million loan facility from another Chinese Bank. The loan facility was entered into in the fourth quarter of 2003 and is comprised of two \$24.0 million tranches. The first tranche has a 10-year term with a maturity in December 2013; the second tranche has a three year term with scheduled principal payments through December 2006 extendible for an additional three years under certain circumstances. Each tranche bears interest at a rate of LIBOR plus 1.5% per annum, payable quarterly. The effective interest rate is 2.72% at December 31, 2003.

Note 7: Commitment and Contingencies

Legal Matters

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

Common Stock Collateral Pledge

On May 6, 2002, ON Semiconductor and Semiconductor Components Industries, LLC ("SCI LLC") (collectively, the "Issuers") issued \$300 million principal amount of second lien notes due 2008. The notes are jointly and severally, fully and unconditionally guaranteed on a senior basis by ON Semiconductor's domestic restricted subsidiaries that are guarantors under its senior subordinated notes. In addition, the notes and guarantees are secured on a second priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries including the Company, 65% of the capital stock or other equity interests of its first-tier foreign subsidiaries and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

On March 3, 2003, the Issuers issued \$200.0 million principal amount of first-lien senior secured notes due 2010 (the "First-Lien Notes") . The notes are fully and unconditionally guaranteed on a joint and several basis by each of the domestic subsidiaries of ON Semiconductor (other than SCI LLC). In addition, the notes and guarantees are secured on a first-priority basis by the capital stock or other equity interests of ON Semiconductor's domestic subsidiaries including the Company, 65% of the capital stock or other equity interests of its first-tier foreign subsidiaries including the Company, and substantially all other assets, in each case that are held by ON Semiconductor or any of the guarantors, but only to the extent that obligations under its senior bank facilities are secured by a first-priority lien thereon.

Purchase Obligations

As of December 31, 2003, the Company had \$2.2 million of capital purchase commitments.

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Note 8: Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Notes Payable to Affiliate

Due to the related-party nature of the notes payable to affiliate, it was not practicable to estimate their fair values due to the inability to obtain quoted market prices to determine current market rates for similar instruments. At December 31, 2002, the carrying value of the notes payable to affiliate was \$63.3 million.

Long-term Debt

The fair values of the Company's long-term borrowings are determined based on market prices for comparable debt instruments. The carrying value of long-term debt approximates fair value at December 31, 2003 and 2002.

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.1	Reorganization Agreement, dated as of May 11, 1999, among Motorola, Inc., SCG Holding Corporation and Semiconductor Components Industries LLC. (incorporated by reference from Exhibit 2.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
2.2	Agreement and Plan of Recapitalization and Merger, as amended, dated as of May 11, 1999, among SCG Holding Corporation, Semiconductor Components Industries, LLC, Motorola, Inc., TPG Semiconductor Holdings LLC, and TPG Semiconductor Acquisition Corp. (incorporated by reference from Exhibit 2.2 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
2.3	Amendment No. 1 to Agreement and Plan of Recapitalization and Merger, dated as of July 28, 1999, among SCG Holding Corporation, Semiconductor Components Industries, LLC, Motorola, Inc., TPG Semiconductor Holdings LLC, and TPG Semiconductor Acquisition Corp. (incorporated by reference from Exhibit 2.3 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)†
3.1(a)	Amended and Restated Certificate of Incorporation of ON Semiconductor Corporation as of August 1, 2002 (incorporated by reference from Exhibit 3.1(a) of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
3.1(b)	Certificate Designations relating to the Series A Cumulative Convertible Preferred Stock (incorporated by reference from Exhibit 3.1(b) of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
3.2	Amended and Restated Bylaws of ON Semiconductor Corporation(1)
4.1	Specimen of share certificate of Common Stock, par value \$.01, ON Semiconductor Corporation(1)
4.2	Certificate of Designations relating to the Series A Cumulative Convertible Preferred Stock (incorporated by reference from Exhibit 3.1 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.3	Specimen of Share Certificate of Series A Cumulative Convertible Preferred Stock (incorporated by reference from Exhibit 4.1 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.4	Purchase Agreement, dated as of August 4, 1999, SCG Holding Corporation, Semiconductor Components Industries, LLC, Chase Securities Inc., Donaldson, Lufkin & Jenrette Securities Corporation, Lehman Brothers Inc. (incorporated by reference from Exhibit 10.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.5	Investment Agreement, dated as of September 7, 2001, between TPG ON Holdings LLC and ON Semiconductor Corporation (incorporated by reference from Exhibit 4.2 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.6	Registration Rights Agreement, dated as of September 7, 2001, between TPG ON Holdings LLC and ON Semiconductor Corporation (incorporated by reference from Exhibit 4.3 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)
4.7	Subordination Agreement, dated as of September 7, 2001, by and between TPG ON Holdings LLC and ON Semiconductor Corporation, for the benefit of Senior Creditors (incorporated by reference from Exhibit 4.4 to the Corporation's Form 8-K Current Report filed with the Commission on September 7, 2001)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
4.8	Warrant Agreement dated as of October 11, 2001, between ON Semiconductor Corporation and Bain & Company, Inc. (incorporated by reference from Exhibit 4.7 to the Corporation's Form 10-K filed with the Commission on March 29, 2002)
4.9	Indenture, dated as of August 4, 1999 among SCG Holding Corporation, Semiconductor Components Industries, LLC, the Note Guarantors named therein and State Street Bank and Trust Company, as trustee, relating to the 12% Senior Subordinated Notes due 2009 (incorporated by reference from Exhibit 4.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.10	Form of 12% Senior Subordinated Note due 2009 of SCG Holding Corporation and Semiconductor Components Industries, LLC ("Initial Note") (included as Exhibit A to the Indenture filed as Exhibit 4.8 herein & incorporated by reference from Exhibit 4.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.11	Form of 12% Senior Subordinated Note due 2009 of SCG Holding Corporation and Semiconductor Components Industries, LLC ("Exchange Note") (included as Exhibit B to the Indenture filed as Exhibit 4.8 herein & incorporated by reference from Exhibit 4.1 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.12	Exchange Offer and Registration Rights Agreement, dated August 4, 1999, Semiconductor Components Industries, LLC, SCG Holding Corporation, the subsidiary guarantors of SCG Holding Corporation (incorporated by reference from Exhibit 4.5 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
4.13	Purchase Agreement, dated May 1, 2002, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, Credit Suisse First Boston Corporation, Morgan Stanley & Co., Incorporated, J.P. Morgan Securities Inc., and Salomon Smith Barney Inc., relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 4.1 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
4.14	Indenture, dated as of May 6, 2002, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., SCG International Development LLC, Semiconductor Components Industries of Rhode Island, Inc., and Semiconductor Components Industries International of Rhode Island, Inc., and Wells Fargo Bank Minnesota, National Association, as trustee, relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 4.2 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
4.15	Form of 12% Senior Secured Note due 2008 of ON Semiconductor Corporation and Semiconductor Components Industries, LLC ("Initial Note") (included as Exhibit A and Appendix A to the Indenture filed as Exhibit 4.2) (incorporated by reference from Exhibit 4.3 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
4.16	Form of 12% Senior Secured Note due 2008 of ON Semiconductor Corporation and Semiconductor Components Industries, LLC ("Exchange Note") (included as Exhibit B and Appendix A to the Indenture filed as Exhibit 4.2) (incorporated by reference from Exhibit 4.4 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
4.17	Registration Rights Agreement, dated May 6, 2002, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., SCG International Development LLC, Semiconductor Components Industries of Rhode Island, Inc., and Semiconductor Components Industries International of Rhode Island, Inc., Credit Suisse First Boston Corporation, Morgan Stanley & Co., Incorporated, J.P. Morgan Securities Inc., and Salomon Smith Barney Inc., relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 4.5 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
4.18	Purchase Agreement, dated February 26, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, Salomon Smith Barney Inc., Credit Suisse First Boston LLC, J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 4.17 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
4.19	Indenture, dated as of March 3, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., SCG International Development LLC, Semiconductor Components Industries of Rhode Island, Inc., and Semiconductor Components Industries International of Rhode Island, Inc., and Wells Fargo Bank Minnesota, National Association, as trustee, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 4.18 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
4.20	Form of 12% Senior Secured Note due 2010 of ON Semiconductor Corporation and Semiconductor Components Industries, LLC (“Initial Note”) (included as Exhibit A and Appendix A to the Indenture filed as Exhibit 4.18 hereto) (incorporated by reference from Exhibit 4.19 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
4.21	Form of 12% Senior Secured Note due 2010 of ON Semiconductor Corporation and Semiconductor Components Industries, LLC (“Exchange Note”) (included as Exhibit B and Appendix A to the Indenture filed as Exhibit 4.18 hereto) (incorporated by reference from Exhibit 4.20 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
4.22	Registration Rights Agreement, dated March 3, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation, SCG (China) Holding Corporation, Semiconductor Components Industries Puerto Rico, Inc., SCG International Development LLC, Semiconductor Components Industries of Rhode Island, Inc., and Semiconductor Components Industries International of Rhode Island, Inc., Salomon Smith Barney Inc., Credit Suisse First Boston LLC, J.P. Morgan Securities Inc., and Morgan Stanley & Co. Incorporated, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 4.21 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.1	Guarantee Agreement, dated as of August 4, 1999, among SCG Holding Corporation, the subsidiary guarantors of SCG Holding Corporation that are signatories thereto, and The Chase Manhattan Bank, as collateral agent (incorporated by reference from Exhibit 10.3 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.2	Stock Purchase Agreement dated March 8, 2000 among Semiconductor Components Industries, LLC, SCG Holding Corporation and The Cherry Corporation (incorporated by reference from Exhibit 10.3 to Registration Statement No. 333-30670 filed with the Commission on April 7, 2000)
10.3	Amended and Restated Intellectual Property Agreement, dated August 4, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.5 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000) ^{††}
10.4	Transition Services Agreement, dated August 4, 1999, among Motorola, Inc., SCG Holding Corporation, and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.6 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.5	Employee Matters Agreements, as amended, dated July 30, 1999, among Semiconductor Components Industries, LLC, SCG Holding Corporation and Motorola, Inc. (incorporated by reference from Exhibit 10.7 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.6	Motorola Assembly Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.8 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.7	SCG Assembly Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.9 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.8	Motorola Foundry Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.10 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.9	SCG Foundry Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.11 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.10	Equipment Lease and Repurchase Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.12 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.11	Equipment Passdown Agreement, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.13 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)††
10.12	SCG Holding Corporation 1999 Founders Stock Option Plan (incorporated by reference from Exhibit 10.14 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.13(a)	Lease for 52nd Street property, dated July 31, 1999, among Semiconductor Components Industries, LLC as Lessor, and Motorola Inc. as Lessee (incorporated by reference from Exhibit 10.16 Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.13(b)	First Lease Amendment to Lease for 52nd Street property, dated April 19, 2000, between Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.14(b) to the Corporation's Form 10-K filed with the Commission on March 29, 2002)
10.14	Lease for U.S. Locations (Mesa, Chandler, 56th Street and Tempe), dated July 31, 1999, among Motorola, Inc. as Lessor, and Semiconductor Components Industries, LLC as Lessee (incorporated by reference from Exhibit 10.15 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.15	Declaration of Reciprocal Covenants, Easement of Restrictions and Options to Purchase and Lease, dated July 31, 1999, among Semiconductor Components Industries, LLC and Motorola, Inc. (incorporated by reference from Exhibit 10.17 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)
10.16(a)	Employment Agreement, dated as of October 27, 1999, between Semiconductor Components Industries, LLC and Steve Hanson (incorporated by reference from Exhibit 10.18 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.16(b)	Amendment to Employment Agreement effective as of April 15, 2002, between ON Semiconductor Corporation and Semiconductor Components Industries, LLC and Steve Hanson (incorporated by reference from Exhibit 10.2 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.16(c)	Separation Agreement, made as of November 21, 2002, by and among Steven Hanson, ON Semiconductor Corporation and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.19(c) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.16(d)	Amendment to Separation Agreement, dated as of February 25, 2003, by and between Steven Hanson, ON Semiconductor Corporation and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.19(d) to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.17(a)	Employment Agreement, dated as of September 13, 1999, between Semiconductor Components Industries, LLC and Michael Rohleder (incorporated by reference from Exhibit 10.19 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.17(b)	Termination Agreement made as of January 29, 2002, between Michael Rohleder and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.1(a) of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.18(a)	Employment Agreement, dated as of November 8, 1999, between Semiconductor Components Industries, LLC and James Thorburn (incorporated by reference from Exhibit 10.20 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.18(b)	Amendment No. 1 to Employment Agreement for James Thorburn, dated as of July 20, 2000 (incorporated by reference from Exhibit 10.2 of Third Quarter 2000 Form 10-Q filed with the Commission on November 14, 2000)(2)
10.18(c)	Separation Letter Agreement dated February 28, 2001 (with attached General Release and Waiver dated March 10, 2001), between James Thorburn and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.2 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)(2)
10.19(a)	Employment Agreement, dated as of October 27, 1999, between Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.21 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.19(b)	Amendment to Employment Agreement, dated as of October 1, 2001, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.20(b) to the Corporation's Form 10-K filed with the Commission on March 29, 2002)(2)
10.19(c)	Amendment to Employment Agreement, dated as of August 5, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and William George (incorporated by reference from Exhibit 10.1 of Third Quarter 2003 Form 10-Q filed with the Commission on November 7, 2003)(2)
10.20(a)	Employment Agreement, dated as of October 27, 1999, between Semiconductor Components Industries, LLC and Dario Sacomani (incorporated by reference from Exhibit 10.22 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.20(b)	Amendment to Employment Agreement, dated as of November 28, 2001, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC and Dario Sacomani (incorporated by reference from Exhibit 10.21(b) to the Corporation's Form 10-K filed with the Commission on March 29, 2002)(2)
10.20(c)	Termination Agreement made as of May 3, 2002, between Semiconductor Components Industries, LLC and Dario Sacomani (incorporated by reference from Exhibit 10.5 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.21(a)	Pledge and Security Agreement, dated as of November 8, 1999, between Semiconductor Components Industries, LLC and James Thorburn (incorporated by reference from Exhibit 10.23 to Registration Statement No. 333-90359 filed with the Commission on January 11, 2000)(2)
10.21(b)	Deed of Trust, dated as of July 20, 2000, with James Thorburn as Trustee and Semiconductor Components Industries, LLC as Beneficiary (incorporated by reference from Exhibit 10.3 of Third Quarter 2000 Form 10-Q filed with the Commission on November 14, 2000)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.22(a)	Promissory Note/ Security Interest, dated as of November 8, 1999, from James Thorburn to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.24 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)(2)
10.22(b)	Promissory Note, dated July 21, 2000, from James Thorburn to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.2 of Third Quarter 2000 Form 10-Q filed with the Commission on November 14, 2000)(2)
10.22(c)	Amendment to Promissory Note, dated March 10, 2001, from James Thorburn and Jacqueline Thorburn to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.1 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)(2)
10.23(a)	ON Semiconductor Amended and Restated Executive Deferred Compensation Plan (incorporated by reference from Exhibit 10.31 to Registration Statement No. 333-30670 filed with the Commission on April 25, 2000)(2)
10.23(b)	First Amendment to the ON Semiconductor Corporation (fka SCG Holding Corporation) Executive Deferred Compensation Plan, as previously amended, dated September 19, 2000 (incorporated by reference from Exhibit 4.2 to Registration Statement No. 333-107895 filed with the Commission on August 12, 2003)(2)
10.23(c)	Second Amendment to the ON Semiconductor Amended and Restated Executive Deferred Compensation Plan effective January 1, 2002 (incorporated by reference from Exhibit 10.7 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.24	Junior Subordinated Note Due 2011(1)
10.25(a)	2000 Stock Incentive Plan amended and restated as of May 21, 2003 (incorporated by reference from Exhibit 10.1 of Second Quarter 2003 Form 10-Q filed with the Commission on August 13, 2003)(2)
10.25(b)	2000 Stock Incentive Plan — ON Ownership program grant agreement (incorporated by reference from Exhibit 10.33(b) to Registration Statement No. 333-30670 filed with the Commission on April 25, 2000)(2)
10.25(c)	2000 Stock Incentive Plan — incentive stock option agreement (incorporated by reference from Exhibit 10.35(c) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.25(d)	2000 Stock Incentive Plan — non-qualified stock option agreement (incorporated by reference from Exhibit 10.35(d) to Registration Statement No. 333-30670 filed with the Commission on March 24, 2000)(2)
10.26	2000 Employee Stock Purchase Plan amended and restated as of May 23, 2001(incorporated by reference from Exhibit 10.5 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)(2)
10.27	ON Semiconductor Director Deferred Compensation Plan (incorporated by reference from Exhibit 10.35 to Registration Statement No. 333-30670 filed with the Commission on April 25, 2000)(2)
10.28	Form of Master Trust Agreement for the ON Semiconductor Deferred Compensation Plans (incorporated by reference from Exhibit 10.36 to Registration Statement No. 333-30670 filed with the Commission on April 25, 2000)(2)
10.29	2000 ON Semiconductor Executive Council Bonus Incentive Plan (incorporated by reference from Exhibit 10.37 of Fourth Quarter 2000 Form 10-K filed with the Commission on March 30, 2001)(2)
10.30	2000 Key Contributor Incentive Plan (incorporated by reference from Exhibit 10.38 of Fourth Quarter 2000 Form 10-K filed with the Commission on March 30, 2001)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.31(a)	Promissory Note, dated March 9, 2001, from Michael Rohleder and Roxanne Rohleder to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.3 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)(2)
10.31(b)	Deed of Trust, dated March 7, 2001, from Michael Rohleder and Roxanne Rohleder to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.4 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)(2)
10.31(c)	Amendment to Promissory Note dated March 18, 2002, from Michael Rohleder and Roxanne Rohleder to Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.1(b) of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.32(a)	Loan Facility Agreement, between Leshan-Phoenix Semiconductor Company Limited and Industrial & Commercial Bank of China, Leshan City Branch, for loan in an amount up to \$20 million, dated November 17, 2000 (incorporated by reference from Exhibit 10.1 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.32(b)	Letter for Loan Extension Application for a loan in an amount up to \$20 million, dated November 5, 2003, from Leshan-Phoenix Semiconductor Co. Ltd. to ICBC, Leshan City Branch(1)
10.32(c)	Loans Renewal Agreement between Leshan Phoenix Semiconductor Co. Ltd. and Industrial and Commercial Bank of China, Leshan City Branch for a loan in an amount up to \$20 million, dated March 5, 2004(1)
10.33(a)	Loan Agreement between SCG Japan Ltd. and Development Bank of Japan, for loan in an amount up to \$26.1 million, dated October 27, 2000 (incorporated by reference from Exhibit 10.2 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.33(b)	Guaranty Agreement, executed by Semiconductor Components Industries, LLC on October 27, 2000, in connection with Loan Agreement between SCG Japan Ltd. and Development Bank of Japan, for loan in an amount up to \$26.1 million (incorporated by reference from Exhibit 10.3 of Second Quarter 2001 Form 10-Q filed with the Commission on August 13, 2001)
10.34(a)	Offer Letter dated February 15, 2002, from ON Semiconductor Corporation and Semiconductor Components Industries, LLC to John T. Kurtzweil (incorporated by reference from Exhibit 10.3 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.34(b)	Separation Agreement, dated as of March 31, 2003, by and among John Kurtzweil, ON Semiconductor Corporation and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.38(b) to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.35(a)	Employment Agreement effective as of March 28, 2002, between Semiconductor Components Industries, LLC and William Bradford (incorporated by reference from Exhibit 10.4 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.35(b)	Amendment No. 1 to Employment Agreement for William Bradford, executed on March 20, 2003, by and between Semiconductor Components Industries, LLC and William Bradford (incorporated by reference from Exhibit 10.39(b) to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.36	Offer Letter effective as of April 1, 2002, to Syrus Madavi from ON Semiconductor Corporation (incorporated by reference from Exhibit 10.6 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.37	Employee Incentive Plan, January 2002 (incorporated by reference from Exhibit 10.8 of First Quarter 2002 Form 10-Q filed with the Commission on May 9, 2002)(2)
10.38	ON Semiconductor 2002 Executive Incentive Plan (incorporated by reference from Exhibit 10.1 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)(2)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.39	Employee Incentive Plan January 2002 (incorporated by reference from Exhibit 10.2 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)(2)
10.40	Intercreditor Agreement, dated as of May 6, 2002, among J.P. Morgan Chase Bank, as credit agent, Wells Fargo Bank Minnesota, National Association, as trustee, ON Semiconductor Corporation and Semiconductor Components Industries, LLC (incorporated by reference from Exhibit 10.4 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.41	Security Agreement, dated as of May 6, 2002, among Semiconductor Components Industries, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and Wells Fargo Bank Minnesota, National Association, as trustee and collateral agent, relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 10.5 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.42	Pledge Agreement, dated as of May 6, 2002, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary pledgors of ON Semiconductor Corporation that are signatories thereto, and Wells Fargo Bank Minnesota, National Association, as trustee and collateral agent, relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 10.6 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.43	Collateral Assignment, dated as of May 6, 2002, between Semiconductor Components Industries, LLC and Wells Fargo Bank Minnesota, National Association, as trustee and collateral agent, relating to the 12% Senior Secured Notes due 2008 (incorporated by reference from Exhibit 10.7 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.44	Joint Venture Contract for Leshan-Phoenix Semiconductor Company Limited, amended on June 25, 2002, among SCG (China) Holding Corporation, Leshan Radio Company Ltd, and Motorola (China) Investment Limited (incorporated by reference from Exhibit 10.8 of Second Quarter 2002 Form 10-Q filed with the Commission on August 12, 2002)
10.45(a)	Employment Agreement, dated as of November 10, 2002, between ON Semiconductor Corporation and Keith Jackson (incorporated by reference from Exhibit 10.50(a) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.45(b)	Letter Agreement dated as of November 19, 2002, between ON Semiconductor Corporation and Keith Jackson (incorporated by reference from Exhibit 10.50(b) of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.46	Collateral Sharing Agreement dated as of March 3, 2003, among JPMorgan Chase Bank, as Collateral Agent, Wells Fargo Bank Minnesota, National Association, as Trustee, ON Semiconductor Corporation and Semiconductor Components Industries, LLC, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 10.53 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.47	Security Agreement dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and JPMorgan Chase Bank, as collateral agent for the Secured Parties, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 10.54 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.48	Pledge Agreement, dated as of August 4, 1999, as amended and restated as of March 3, 2003, among Semiconductor Components Industries, LLC, ON Semiconductor Corporation, the subsidiary guarantors of ON Semiconductor Corporation that are signatories thereto, and JPMorgan Chase Bank, as collateral agent for the Secured Parties, relating to the 12% Senior Secured Notes due 2010 (incorporated by reference from Exhibit 10.55 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.49	Collateral Assignment dated as of August 4, 1999, as amended and restated as of March 3, 2003, between Semiconductor Components Industries, LLC and JPMorgan Chase Bank, as collateral agent for the Secured Parties, relating to the 12% Senior Secured Notes due 20102010 (incorporated by reference from Exhibit 10.56 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)
10.50	Employment Offer Letter dated March 14, 2003, between Semiconductor Components Industries, LLC and Donald Colvin (incorporated by reference from Exhibit 10.57 of Fourth Quarter 2002 Form 10-K filed with the Commission on March 25, 2003)(2)
10.51	Letter Agreement relating to the employment of Peter Zdebel, dated as of March 31, 2003, by and between Semiconductor Components Industries, LLC and Peter Zdebel (incorporated by reference from Exhibit 10.58 to Registration Statement No. 333-104927 filed with the Commission on May 1, 2003)(2)
10.52	Supplement No. 1, dated as of September 23, 2003, to the Security Agreement dated as of August 4, 1999 as amended and restated as of March 3, 2003, by and among Semiconductor Components Industries, LLC, the borrower, ON Semiconductor Corporation, and the subsidiary guarantors of ON Semiconductor that are signatories thereto, in favor of JPMorgan Chase Bank, as collateral agent for certain secured parties (incorporated by reference from Exhibit 10.5 of Third Quarter 2003 Form 10-Q filed with the Commission on November 7, 2003)
10.53	Amendment and Restatement Agreement, dated as of November 25, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, as borrower, and JPMorgan Chase Bank, as administrative agent, under the Credit Agreement dated as of August 4, 1999, as amended and restated as of February 14, 2003 (as amended, supplemented and modified and in effect on the date hereof), among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, as borrower, the lenders party thereto, and the administrative agent(1)
10.54	Amended and Restated Credit Agreement, dated as of August 4, 1999, as amended and restated as of November 25, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, as borrower, the lenders party hereto, and JPMorgan Chase Bank as administrative agent, collateral agent and syndication agent (Exhibit A to the Amendment and Restatement Agreement filed as Exhibit 10.64 hereto)(1)
10.55	Reaffirmation Agreement, dated as of November 25, 2003, among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, the subsidiary guarantors of ON Semiconductor that are signatories thereto, and JPMorgan Chase Bank, as administrative agent, issuing bank and collateral agent for the benefit of the lenders(1)
10.56(a)	Loan Agreement executed on December 12, 2003, between China Construction Bank Sichuan Branch and Leshan-Phoenix Semiconductor Company LTD, for a loan in an amount up to \$48 million(1)
10.56(b)	Mortgage Agreement executed on December 12, 2003, between China Construction Bank, Sichuan Branch and Leshan-Phoenix Semiconductor Company Ltd. relating to the loan in an amount up to \$48 million(1)
10.56(c)	Confirmation for Extension of Tranche B Loan, in an amount up to \$24 million, dated as of January 3, 2004, from China Construction Bank, Sichuan Branch to Leshan-Phoenix Semiconductor Company Ltd.(1)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.57	Waiver and Amendment, dated as of January 16, 2004 to the Credit Agreement dated as of August 4, 1999, as amended and restated as of November 25, 2003 (as amended, supplemented or otherwise modified from time to time prior to the date hereof) among ON Semiconductor Corporation, Semiconductor Components Industries, LLC, the Lenders party thereto, and JPMorgan Chase Bank, as administrative agent(1)
14	ON Semiconductor Corporation Code of Business Conduct(1)
18	Letter from PricewaterhouseCoopers LLP re Change in Accounting Principles (incorporated by reference from Exhibit 18 of First Quarter 2001 Form 10-Q filed with the Commission on May 14, 2001)
21.1	List of Significant Subsidiaries(1)
23.1	Consent of PricewaterhouseCoopers LLP, independent accountants(1)
24.1	Powers of Attorney(1)
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(1)
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(1)
32	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)
99.1	Stockholders Agreement dated as of August 4, 1999 among SCG Holding Corporation, TPG Semiconductor Holdings, LLC and Motorola, Inc. (incorporated by reference from Exhibit 99.5 to Registration Statement No. 333-90359 filed with the Commission on November 5, 1999)

(1) Filed herewith.

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

† Schedules or other attachments to these exhibits not filed herewith shall be furnished to the Commission upon request.

†† Portions of these exhibits have been omitted pursuant to a request for confidential treatment

BY-LAWS
OF
ON SEMICONDUCTOR CORPORATION

As Amended and Restated March 5, 2004

ARTICLE I
OFFICES

SECTION 1. REGISTERED OFFICE. The registered office of ON Semiconductor Corporation (hereinafter referred to as the "Corporation") shall be established and maintained at the office of The Corporation Trust Company, in the City of Wilmington, in the County of New Castle, in the State of Delaware, which shall be the registered agent of the Corporation in charge thereof.

SECTION 2. OTHER OFFICES. The Corporation may have other offices, either within or without the State of Delaware, at such place or places as the Board of Directors of the Corporation (hereinafter referred to as the "Board") may from time to time appoint or the business of the Corporation may require.

ARTICLE II
MEETING OF STOCKHOLDERS

SECTION 1. ANNUAL MEETINGS. Annual meetings of stockholders for the election of directors and for such other business as may be stated in the notice of the meeting, shall be held at such place, either within or without the State of Delaware, and at such time and date as the Board, by resolution, shall determine and as set forth in the notice of the meeting. In the event the Board fails to so determine the time, date and place of meeting, the annual meeting of stockholders shall be held at the offices of the Corporation in Delaware on the first Tuesday of June at 11:30 A.M.

If the date of the annual meeting shall fall upon a legal holiday, the meeting shall be held on the next business day. At each annual meeting, the stockholders entitled to vote shall elect directors by plurality vote, in accordance with Article NINTH of the Amended and Restated Certificate of Incorporation of the Corporation, and the stockholders may transact such other corporate business as shall be stated in the notice of the meeting.

SECTION 2. SPECIAL MEETINGS. Except as provided in the Amended and Restated Certificate of Incorporation of the Corporation, special meetings of the stockholders may be called only on the order of the Chairman of the Board or the Board and shall be held at such date, time and place as may be specified by such order. The business permitted to be conducted at any special meeting of the stockholders is limited to the purpose or purposes specified by such order.

SECTION 3. VOTING. Each stockholder entitled to vote in accordance with the terms of the Amended and Restated Certificate of Incorporation of the Corporation and these By-Laws may vote in person or by proxy executed in writing by the stockholder or by his or her

duly authorized attorney-in-fact. If a quorum is present, the affirmative vote of a majority of the votes cast at a meeting of the stockholders by the holders of shares entitled to vote thereat shall be the act of the stockholders, unless the vote of a greater or lesser number of shares of stock is required by law, the Amended and Restated Certificate of Incorporation of the Corporation or these By-Laws.

A complete list of the stockholders entitled to vote at the ensuing election, arranged in alphabetical order, with the address of each, and the number of shares held by each, shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 4. QUORUM. Except as otherwise required by law, by the Amended and Restated Certificate of Incorporation of the Corporation or by these By-Laws, the presence, in person or by proxy, of stockholders holding a majority of the stock of the Corporation entitled to vote shall constitute a quorum at all meetings of the stockholders. In case a quorum shall not be present at any meeting, a majority in interest of the stockholders entitled to vote thereat, present in person or by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of stock entitled to vote shall be present. At any such adjourned meeting at which the requisite amount of stock entitled to vote shall be represented, any business may be transacted that might have been transacted at the meeting as originally noticed; but, unless the Board fixes a new record date, only those stockholders entitled to vote at the meeting as originally noticed shall be entitled to vote at any adjournment or adjournments thereof.

SECTION 5. NOTICE OF MEETINGS. Written notice of all meetings of the stockholders shall be mailed or delivered to each stockholder not less than ten nor more than sixty days before the meeting. The notice or an accompanying document shall identify the business to be transacted at the meeting as determined by the Board and, if directors are to be elected, the nominees therefor proposed by the Board.

Other business may be transacted at the annual meeting (but not at any special meeting), only if the Secretary of the Corporation has received from the sponsoring stockholder (a) not less than ninety nor more than one hundred twenty days before the first Tuesday in June (or, if the Board has designated another date for the annual meeting pursuant to Section 1 of this Article II, not less than ninety nor more than one hundred twenty days before such other date, or, if such other date has not been publicly disclosed or announced at least one hundred five days in advance, then not less than fifteen days after such initial public disclosure or announcement) a written notice setting forth (i) as to each matter the stockholder proposes to bring before the annual meeting, a brief description of the proposal desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (iii) the class and number of shares that are owned beneficially and of record by such stockholder on the date of such stockholder's notice and (iv) any material interest of the stockholder in such proposal, and (b) not more than ten days after receipt by the sponsoring stockholder of a written request from the Secretary, such additional information as the Secretary may reasonably require.

Notwithstanding anything in these By-Laws to the contrary, no business shall be brought before or conducted at an annual meeting except in accordance with the provisions of this Section 5 of Article II. The officer of the Corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 5 of Article II and, if he or she should so determine, such officer shall so declare to the meeting and any business so determined to be not properly brought before the meeting shall not be transacted.

Candidates for election to the Board (other than nominees proposed by the Board) may be nominated at the annual meeting (but not at any special meeting), only if the Secretary of the Corporation has received from the nominating stockholder (a) not less than ninety nor more than one hundred twenty days before the first Tuesday in June (or, if the Board has designated another date for the annual meeting pursuant to Section 1 of this Article II, not less than ninety days nor more than one hundred twenty days before such other date, or, if such other date has not been publicly disclosed or announced at least one hundred five days in advance, then not less than fifteen days after such initial public disclosure or announcement) a written notice setting forth (i) with respect to each person whom such stockholder proposes to nominate for election or re-election as a director, all information relating to such person that would be required to be disclosed in solicitations of proxies for the election of directors, or would otherwise be required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, if such Regulation 14A or any successor regulation or statute were applicable (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business and (iii) the class and number of shares that are owned beneficially and of record by such stockholder on the date of such stockholder's notice, and (b) not more than ten days after receipt by the nominating stockholder of a written request from the Secretary, such additional information as the Secretary may reasonably require. Notwithstanding anything in these By-Laws to the contrary, no person shall be eligible for election as a director except in accordance with the provisions of this Section 5 of Article II. The officer of the Corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that a nomination was not made in accordance with the provisions of this Section 5 of Article II and, if he or she should so determine, such officer shall so declare to the meeting and any such defective nomination shall be disregarded.

ARTICLE III DIRECTORS

SECTION 1. NUMBER. The number of directors shall be fixed by the Board from time to time in accordance with Article NINTH of the Amended and Restated Certificate of Incorporation of the Corporation.

SECTION 2. COMMITTEES. The Board may, by resolution or resolutions passed by a majority of the entire Board, designate one or more committees of the Board, each such committee to consist of one or more directors.

SECTION 3. MEETINGS. The newly elected directors may hold their first meeting for the purpose of organization and the transaction of business, if a quorum be present, immediately after the annual meeting of the stockholders; or the time and place of such meeting may be fixed by consent in writing of all the directors.

Regular meetings of the Board or any committee of the Board may be held without notice at such places and times as shall be determined from time to time by resolution of the Board or such committee, as the case may be.

Special meetings of the Board may be called by the Chairman of the Board or the President and shall be called by the Secretary on the written request of any two directors on at least one day's notice to each director and shall be held at such place or places as may be determined by the Board, or shall be stated in the call of the meeting.

Unless otherwise restricted by the Amended and Restated Certificate of Incorporation of the Corporation or by these By-Laws, members of the Board or any committee of the Board, may participate in a meeting of the Board or any such committee, as the case may be, by means of telephone conference or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

SECTION 4. QUORUM. A majority of the Board or a majority of the members of a committee of the Board shall constitute a quorum of the Board or such committee, as the case may be, for the transaction of business. If at any meeting of the Board or a committee there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum is obtained, and no further notice thereof need be given other than by announcement at the meeting which shall be so adjourned. The vote of the majority of directors present at a meeting at which a quorum is present shall be the act of the Board or such committee, as the case may be, unless the Amended and Restated Certificate of Incorporation of the Corporation or these By-Laws shall require the vote of a greater number.

SECTION 5. COMPENSATION. Non-employee directors, as such, may receive such stated salary for their services and/or such fixed sums and expenses of attendance for attendance at each regular or special meeting of the Board or any committee thereof as may be established by resolution of the Board; *provided* that no compensation shall be so paid for participation in any action taken pursuant to Article III, Section 6; *provided further* that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 6. ACTION WITHOUT MEETING. Any action required or permitted to be taken at any meeting of the Board or of any committee of the Board may be taken without a meeting if, prior to such action, a written consent thereto is signed by all members of the Board or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or such committee, as the case may be.

ARTICLE IV
CHAIRMAN OF THE BOARD AND OFFICERS

SECTION 1. OFFICERS. The officers of the Corporation shall be a President, a Treasurer, and a Secretary, all of whom shall be elected by the Board and who shall hold office until their successors are elected and qualified. In addition, the Board may elect a Chairman, one or more Vice-Presidents and such Assistant Secretaries and Assistant Treasurers as they deem proper. None of the officers of the Corporation need be directors of the Corporation. The

officers shall be elected at the first meeting of the Board after each annual meeting. More than two offices may be held by the same person.

SECTION 2. OTHER OFFICERS AND AGENTS. The Board may appoint such other officers and agents as it may deem advisable, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

SECTION 3. CHAIRMAN. The Chairman of the Board, if one be elected, shall preside at all meetings of the Board and he shall have and perform such other duties as from time to time may be assigned to him by the Board. The Chairman of the Board shall not be deemed an officer of the Corporation unless he is designated as such by a resolution of the Board of Directors.

SECTION 4. PRESIDENT. The President shall be the chief executive officer of the Corporation and shall have the general powers and duties of supervision and management usually vested in the office of President of a corporation. He shall preside at all meetings of the stockholders if present thereat, and in the absence or nonelection of the Chairman of the Board, at all meetings of the Board, and shall have general supervision, direction and control of the business of the Corporation. Except as the Board shall authorize the execution thereof in some other manner, he shall execute bonds, mortgages and other contracts on behalf of the Corporation, and shall cause the seal to be affixed to any instrument requiring it and when so affixed the seal shall be attested by the signature of the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer.

SECTION 5. VICE-PRESIDENT. Each Vice-President shall have such powers and shall perform such duties as shall be assigned to him by the directors.

SECTION 6. TREASURER. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate account of receipts and disbursements in books belonging to the Corporation. He shall deposit all moneys and other valuables in the name and to the credit of the Corporation in such depositories as may be designated by the Board.

The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board, or the President, taking proper vouchers for such disbursements. He shall render to the President and Board at the regular meetings of the Board, or whenever they may request it, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board, he shall give the Corporation a bond for the faithful discharge of his duties in such amount and with such surety as the Board shall prescribe.

SECTION 7. SECRETARY. The Secretary shall give, or cause to be given, notice of all meetings of stockholders and directors, and all other notices required by law or by these By-Laws, and in case of his absence or refusal or neglect so to do, any such notice may be given by any person thereunto directed by the President, or by the directors, or stockholders, upon whose requisition the meeting is called as provided in these By-Laws. He shall record all the proceedings of the meetings of the Corporation and of the Board or any committee of the Board in a book to be kept for that purpose, and shall perform such other duties as may be assigned to him by the Board or the President. He shall have the custody of the seal of the

Corporation and shall affix the same to all instruments requiring it, when authorized by the directors or the President, and attest the same.

SECTION 8. ASSISTANT TREASURERS AND ASSISTANT SECRETARIES. Assistant Treasurers and Assistant Secretaries, if any, shall be elected and shall have such powers and shall perform such duties as shall be assigned to them, respectively, by the directors.

ARTICLE V
MISCELLANEOUS

SECTION 1. CERTIFICATES OF STOCK. Certificates of stock, signed by the Chairman or Vice Chairman of the Board, if they be elected, President or Vice-President, and the Treasurer or an Assistant Treasurer, or Secretary or an Assistant Secretary, shall be issued to each stockholder certifying the number of shares owned by him in the Corporation. Any of or all the signatures may be facsimiles.

SECTION 2. LOST CERTIFICATES. A new certificate of stock may be issued in the place of any certificate theretofore issued by the Corporation, alleged to have been lost or destroyed, and the directors may, in their discretion, require the owner of the lost or destroyed certificate, or his legal representatives, to give the Corporation a bond, in such sum as they may direct not exceeding double the value of the stock, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss of any such certificate, or the issuance of any such new certificate.

SECTION 3. TRANSFER OF SHARES. The shares of stock of the Corporation shall be transferable only upon its books by the holders thereof in person or by their duly authorized attorneys or legal representatives, and upon such transfer the old certificates shall be surrendered to the Corporation by the delivery thereof to the person in charge of the stock and transfer books and ledgers, or to such other person as the directors may designate, by whom they shall be cancelled, and new certificates shall thereupon be issued. A record shall be made of each transfer and whenever a transfer shall be made for collateral security, and not absolutely, it shall be so expressed in the entry of the transfer.

SECTION 4. STOCKHOLDERS RECORD DATE. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the Board may fix a new record date for the adjourned meeting.

SECTION 5. DIVIDENDS. Subject to the provisions of the Amended and Restated Certificate of Incorporation of the Corporation, the Board may, out of funds legally available therefor at any regular or special meeting, declare dividends upon the capital stock of the Corporation as and when they deem expedient. Before declaring any dividend there may be

set apart out of any funds of the Corporation available for dividends, such sum or sums as the directors from time to time in their discretion deem proper for working capital or as a reserve fund to meet contingencies or for equalizing dividends or for such other purposes as the directors shall deem conducive to the interests of the company.

SECTION 6. SEAL. The corporate seal shall be circular in form and shall contain the name of the Corporation, the year of its creation and the words "CORPORATE SEAL DELAWARE". Said seal may be used by causing it or a facsimile to be impressed or affixed or reproduced or otherwise.

SECTION 7. FISCAL YEAR. The fiscal year of the Corporation shall be determined by resolution of the Board.

SECTION 8. CHECKS. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation, and in such manner as shall be determined from time to time by resolutions of the Board.

SECTION 9. NOTICE AND WAIVER OF NOTICE. Whenever any notice is required by these By-Laws to be given, personal notice is not meant unless expressly so stated (and except in the case of notice pursuant to Article III, Section 3), and any notice so required shall be deemed to be sufficient if given by depositing the same in the United States mail, postage prepaid, addressed to the person entitled thereto at his address as it appears on the records of the Corporation, and such notice shall be deemed to have been given on the day of such mailing. Stockholders not entitled to vote shall not be entitled to receive notice of any meetings except as otherwise provided by Statute.

Whenever any notice whatever is required to be given under the provisions of any law, or under the provisions of the Amended and Restated Certificate of Incorporation of the Corporation or By-Laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE VI AMENDMENTS

In furtherance and not in limitation of the powers conferred by law, the Board is expressly authorized and empowered to adopt, amend and repeal any By-Law 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 made by the Board. Notwithstanding any other provisions of the Amended and Restated Certificate of Incorporation of the Corporation or these By-Laws (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 this Article VI of these By-Laws may not be amended or repealed, nor may any By-Law provision inconsistent herewith or 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 VI as a single class.

[GRAPHIC]
ON Semiconductor

[GRAPHIC]
ON Semiconductor™

COMMON STOCK
[GRAPHIC]
SEE REVERSE FOR CERTAIN DEFINITIONS
CUSIP 682189 10 5
INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE

This Certifies that

Is the record holder of

FULLY PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK,
\$.01 PAR VALUE PER SHARE, OF

[GRAPHIC]

ON Semiconductor Corporation

___ SECURITY -
COLUMBIAN
UNITED STATES
BANK NOTE
CORPORATION

transferable on the books of the Corporation by the holder in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

/s/ GEORGE H. CAVE

[SEAL]

/s/ KEITH D. JACKSON

SECRETARY

PRESIDENT

COUNTERSIGNED AND REGISTERED:

COMPUTERSHARE INVESTOR SERVICES, LLC.

TRANSFER AGENT
AND REGISTRAR,

BY

SPECIMEN

AUTHORIZED SIGNATURE:

The Corporation will furnish without charge to each stockholder who so request the powers, designation, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights. Such requests shall be made to the Corporation's Secretary at the principal office of the Corporation.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN, OR DESTROYED THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as through they were written out in full according to applicable laws or regulations.

TEN COM – as tenants in common
TEN ENT – as tenants by the entireties
JT TEN – as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT– _____ Costodian _____
(Cust) (Minor)
under Uniform Gifts to the Minors Act _____
(State)

UNIF GIFT MIN ACT– _____ Costodian (until age _____)
_____ under uniform Transfers (Minor)
to Minors Act _____
(State)

Additional abbreviations may also be used through not in the above list.

FOR VALUE RECEIVED, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

_____ Shares
of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney
to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated _____

X _____

X _____

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed

By _____

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS, AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

Junior Subordinated Note Due 2011

THE SECURITY REPRESENTED BY THIS INSTRUMENT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THIS SECURITY CANNOT BE SOLD OR OTHERWISE TRANSFERRED UNLESS THIS SECURITY IS REGISTERED UNDER THE SECURITIES ACT OF 1933 OR THE COMPANY IS FURNISHED WITH AN ACCEPTABLE OPINION OF COUNSEL THAT AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

10% Junior Subordinated Note Due 2011

\$91,000,000

August 4, 1999

SECTION 1. General.

(a) Semiconductor Components Industries, LLC, a Delaware limited liability company (the "Company"), for value received, hereby promises to pay, subject to the further provisions hereof (including, without limitation, the subordination provisions set forth herein), to Semiconductor Note Participation Trust (the "Payee"), the aggregate principal amount of NINETY-ONE MILLION DOLLARS (\$91,000,000), on August 4, 2011 (such date being the "Payment Date"), in such coin or currency of the United States of America as at the time of payment shall be legal tender therein for the payment of public and private debts.

(b) The Company further agrees to pay, subject to the subordination provisions set forth herein, interest on the unpaid principal amount hereof from time to time from the date hereof at the rate of 10% per annum, payable semiannually on February 1 and August 1 of each year (each an "Interest Payment Date"). Cash interest on this Note shall not be payable prior to the fifth anniversary of the date hereof. Prior to such fifth anniversary, interest on the unpaid principal amount of this Note shall accrue at the rate of 10% per annum and shall be added to the principal on each Interest Payment Date and amounts so added shall thereafter be deemed to be a part of the principal amount of this Note for all purposes hereof and shall be payable on the Payment Date. On and after the fifth anniversary of the date hereof, accrued interest at each Interest Payment Date may, subject to Section 4 of this Note, be paid in cash if (i) at the time of such payment after giving effect thereto, the Leverage Ratio shall not exceed 1.50 to 1.00 and (ii) at the time of each such payment, no default or event of default exists or would result from such payment under any Senior Debt. Accrued interest not paid in cash on an Interest Payment Date pursuant to the preceding sentence shall be added to the principal on such Interest Payment Date and shall thereafter be deemed to be a part of the principal

amount of this Note for all purposes hereof and shall be payable on the Payment Date. Interest shall be calculated on the basis of a 360-day year of twelve 30-day months.

SECTION 2. The Note.

This Note is being delivered pursuant to the Agreement and Plan of Recapitalization and Merger dated as of May 11, 1999, by and among the Company and the parties thereto, as the same may be amended or modified. Reference herein to the term "Note" also refers to any Note executed and delivered by the Company in replacement hereof pursuant to Section 5 hereof. Unless the context otherwise requires, the term "holder" is used herein to mean the person named as Payee in Section 1 hereof who is the holder of this Note, and such person's successors and permitted assigns.

SECTION 3. Prepayments.

(a) The Company may, at its sole option, at any time prepay this Note, without penalty, in whole or in part, on five (5) days' prior written notice to the holder hereof, at a prepayment price equal to the principal amount so to be prepaid together with interest on the principal amount so prepaid to the date of such prepayment; provided, that either (i) all principal of, interest on and premium, if any, and all other obligations of the Company under any Senior Debt shall have been repaid or prepaid in full in cash and all commitments to extend Senior Debt shall have been terminated at the time of any such prepayment or (ii) at the time of each such prepayment no default or event of default exists or would result from such payment under any Senior Debt.

(b) Upon the consummation of a Change of Control (as defined below), if the Company does not prepay this Note in full, the holder of this Note shall have the right to require the Company to repurchase this Note at a price in cash equal to the outstanding principal amount hereof together with interest on the principal amount to the date of such repurchase. Within 30 days following any Change of Control, unless the Company shall have mailed a notice with respect to a prepayment pursuant to Section 3(a), the Company shall mail a notice to the holder of this Note describing the transaction or transactions that constitute the Change of Control and offering to repurchase this Note on the date specified in such notice, which date shall be no earlier than 30 days and no later than 60 days from the date such notice is mailed. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this paragraph, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations hereunder by virtue thereof. The provisions of this Section 3(b) shall be subject to the condition that (i) all principal of, interest on, and premium, if any, and all other obligations of the Company under any Senior Debt shall have been repaid or prepaid in full in cash and all commitments to extend such Senior Debt shall have been terminated at the time of such repurchase or (ii) at the time of each

such repurchase no default or event of default exists or would result from such repurchase under any Senior Debt.

SECTION 4. Subordination.

(a) Agreement To Subordinate. The Company agrees, and the holder of this Note by accepting this Note agrees, that the indebtedness and other obligations evidenced by this Note (including, without limitation, all obligations to pay principal of, and interest on this Note and all other obligations under the terms of this Note) are subordinated in right of payment, to the extent and in the manner provided in this Section 4, to the prior payment in full of all Senior Debt and that the subordination is for the benefit of and enforceable by the holders of such Senior Debt (the "Senior Debtholders").

(b) No payment (whether directly, by purchase, redemption or exercise of any right of setoff or otherwise) in respect of this Note, whether as principal, interest or otherwise, and whether in cash, securities or property (collectively, "pay this Note"), shall be made by or on behalf of the Company or received, accepted or demanded, directly or indirectly, by or on behalf of the holder of this Note unless and until all Senior Debt has been indefeasibly paid in full in cash to the Senior Debtholders, except that (i) payments of interest in kind under this Note may be made when due and payable and payments of interest in cash after the fifth anniversary of the date hereof may be made when due and payable, in each case pursuant to Section 1(b) and subject to the conditions specified therein, (ii) the Company may prepay this Note, in whole or in part, at any time and from time to time, and may repurchase this Note upon consummation of a Change of Control, in each case on the terms and subject to the conditions set forth in Section 3 hereof, and (iii) the Company may pay this Note without regard to the foregoing if the Company receives the written consent of all the Senior Debtholders (or any duly authorized representatives thereof).

(c) Liquidation, Dissolution, Bankruptcy. Upon any distribution of the assets of the Company or upon any payment or distribution of the assets of the Company to creditors upon a total or partial liquidation or a total or partial dissolution of the Company or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or its property:

(i) the Senior Debtholders shall be entitled to receive payment in full in cash of the Senior Debt before the holder of this Note shall be entitled to receive any payment of principal of or interest on this Note or any other payment; and

(ii) until the Senior Debt of the Company is paid in full in cash, any payment or distribution to which the holder of this Note would be entitled but for

this Section 4 shall be made to the Senior Debtholders as their interests may appear.

(d) The holder of this Note shall not commence, or join with any other creditor in commencing, any bankruptcy, reorganization or insolvency proceedings with respect to the Company unless the Senior Debtholders shall also join in bringing such proceeding (provided, however, that the holder hereof shall be entitled to file a proof of claim in respect of the obligations hereunder in any such proceeding so long as such proof of claim shall state that any right to payment is subordinated to the extent and in the manner set forth in this Section 4). Any distribution of assets of, or payments by, the Company of any kind or character, whether in cash, property or securities, to which the holder of this Note would be entitled except for the provisions of this Section 4 shall be paid or delivered by the person making such distribution or payment, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the Senior Debtholders or their representative or representatives or to the trustee or trustees under any indenture under which any instruments evidencing any such Senior Debt may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the Senior Debt or represented by each of such instruments, to the extent necessary to make payment in full of all Senior Debt remaining unpaid after giving effect to any concurrent payment or distribution (or provisions therefor) to the Senior Debtholders.

(e) If, prior to the Payment Date, (i) any Senior Debt is declared due and payable prior to its stated maturity by reason of the occurrence of an event of default, and such acceleration is not rescinded, or (ii) any default or event of default with respect to any Senior Debt occurs and such default or event of default is not cured or waived, then all principal of and interest on such Senior Debt which is due and payable (whether by acceleration or otherwise) shall first be paid in full and all commitments to extend such Senior Debt shall be terminated before any payment on account of principal or interest is made upon this Note and before the holder of this Note shall demand, accept or receive or attempt to collect or commence any legal proceedings to collect any such payment or take any action to accelerate this Note, and to that end, so long as such acceleration or default continues and until such Senior Debt shall have been paid in full or otherwise discharged, the Senior Debtholders shall be entitled to receive, subject to the further provisions of Section 4(f) below, whether from the holder of this Note or otherwise, for application in payment of such Senior Debt any payment or distribution of any kind or character, whether in cash, securities or other property, which is paid or delivered or which may be payable or deliverable on or with respect to this Note after the occurrence of such acceleration or default, and the holder of this Note shall, subject to the further provisions of Section 4(f) below, hold any such payments or distributions made to such holder in trust for the Senior Debtholders.

(f) In the event that any payment by, or on behalf of, or distribution of the assets of, the Company of any kind or character, whether in cash, property or securities,

and whether directly, by purchase, redemption, exercise of any right of setoff or otherwise, shall be received by or on behalf of the holder of this Note or any affiliate thereof at a time when such payment is prohibited by the provisions of this Section 4, such payment or distribution shall be held by the holder of this Note or such affiliate in trust (segregated from other property of the holder of this Note or such affiliate) for the benefit of the Senior Debtholders, and shall forthwith be paid over directly to the Senior Debtholders or their representative or representatives or to the trustee or trustees under any indenture under which any instruments evidencing any such Senior Debt may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the Senior Debt or represented by each of such instruments, to the extent necessary to make payment in full of all Senior Debt remaining unpaid after giving effect to any concurrent payment or distribution (or provision therefor) by the Company or any guarantor of the Senior Debt to the Senior Debtholders.

(g) The holder of this Note, by acceptance of this Note, (i) if and so long as payment thereon is prohibited by this Section 4, irrevocably authorizes and empowers (but without imposing any obligation on, or any duty to such holder from) the Senior Debtholders at any time outstanding and such Senior Debtholders' representatives, to demand, sue for, collect, receive and acknowledge receipt of such Senior Debtholders' ratable share of payments and distributions in respect of this Note to the extent such payments and distributions are required to be paid or delivered to the Senior Debtholders' as provided in this Section 4, and to file and prove all claims therefor and take all such other actions (including the exclusive right to vote, file and prove claims in respect of this Note in connection with any bankruptcy, insolvency, receivership or similar proceeding, including the right to vote such claims in connection with any election of trustees, acceptances of plans or otherwise) in the name of such holder, or otherwise, as such Senior Debtholders or their representatives may determine to be necessary or appropriate for the enforcement of the provisions of this Section 4 and (ii) agrees to execute and to deliver to each Senior Debtholder and its representatives all such further instruments confirming the authorization hereinabove set forth, and all powers of attorney, proxies, proofs of claim, assignments of claim and other instruments, and to take all such other actions, as may be requested by such Senior Debtholder or its representatives in order to enable such Senior Debtholder to enforce all claims upon or in respect of such holder's ratable share of payments and distributions in respect of this Note.

(h) Nothing herein shall impair, as between the Company and the holder of this Note, the obligation of the Company, which is unconditional and absolute, to pay to the holder hereof the principal hereof and interest hereon in accordance with the terms and provisions hereof, nor shall anything herein prevent the holder of this Note from exercising all remedies otherwise permitted by applicable law hereunder upon default under this Note, subject, however, to the provisions of this Section 4.

(i) The holder of this Note shall not be subrogated to the rights of the Senior Debtholders to receive payments or distributions of assets of the Company until all amounts payable with respect to the Senior Debtholders shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the Senior Debtholders of any cash, property or securities to which the holder of this Note would be entitled except for these provisions shall, as between the Company, its creditors, other than the Senior Debtholders, and the holder of this Note, be deemed to be a payment by the Company to or on account of the Senior Debt. The subordination provisions of this Note are intended solely for the purpose of defining the relative rights of the holder of this Note, on the one hand, and the Senior Debtholders, on the other hand.

(j) The holder of this Note agrees that, in the event that all or any part of any payment made on account of the Senior Debt is recovered from the Senior Debtholders as a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law, any payment or distribution received by the holder of this Note on account of this Note at any time after the date of the payment so recovered, including payments received pursuant to a right of subrogation, shall be deemed to have been received by the holder of this Note in trust as the property of the Senior Debtholders, and the holder of this Note shall forthwith deliver the same to the Agent or any other representative on behalf of the Senior Debtholders for the equal and ratable benefit of the Senior Debtholders for application to payment of all Senior Debt in full.

(k) The holder of this Note hereby waives any and all notice in respect of the Senior Debt, present or future, and agrees and consents that without notice to or assent by any holder or holders of this Note:

(i) the obligation and liabilities of the Company or any other party or parties for or upon the Senior Debt (or any promissory note, security document or guaranty evidencing or securing the same) may, from time to time, in whole or in part, be renewed, extended, modified, amended, restated, accelerated, compromised, supplemented, terminated, sold, exchanged, waived or released;

(ii) the Senior Debtholders or any of their representatives under any agreement relating to the Senior Debt may exercise or refrain from exercising any right, remedy or power granted by or in connection with any agreements relating to the Senior Debt; and

(iii) any balance or balances of funds with any holders of the Senior Debt at any time standing to the credit of the Company may, from time to time, in whole or in part, be surrendered or released;

in each case as the Senior Debtholders or any of their representatives under any agreement relating to the Senior Debt may deem advisable and all without impairing,

abridging, diminishing, releasing or affecting the subordination of this Note to the Senior Debt provided for herein.

(l) No present or future Senior Debtholders shall be prejudiced in its right to enforce the subordination provisions contained herein in accordance with the terms hereof by any act or failure to act on the part of the Company or the holder of this Note. The subordination provisions contained herein are for the benefit of the Senior Debtholders from time to time and, so long as any Senior Debt is outstanding under any agreement, or any commitment to extend Senior Debt is in effect, may not be rescinded, canceled or modified in any way without the prior written consent thereto of all Senior Debtholders.

(m) The subordination and other provisions of this Section 4 shall be binding upon any holder of this Note and upon the successors and assigns of any holder of this Note; and all references herein to the holders of this Note shall be deemed to include any successor or successors or assigns, whether immediate or remote, to the holder of this Note.

(n) The failure to make a payment pursuant to this Note by reason of any provision in this Section 4 shall not in any way be construed as preventing the occurrence of an Event of Default. Nothing in this Section 4 shall have any effect on the right of the holder of this Note to accelerate the maturity of this note.

SECTION 5. Replacement of Note.

At the request of the holder hereof upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Note and, in case of loss, theft or destruction, of indemnity reasonably satisfactory to it, or, in the case of mutilation, upon surrender and cancelation of this Note, and in all cases upon reimbursement to the Company of all reasonable expenses incidental thereto, the Company shall make and deliver a new Note of like tenor in lieu of this Note. Any Note made and delivered in accordance with the provisions of this Section 5 shall be dated as of the date through which interest has been paid on this Note.

SECTION 6. Amendments and Waivers.

With the written consent of the holder of this Note, any covenant, agreement or condition contained in this Note may be waived (either generally or in a particular instance and either retroactively or prospectively), or such holder and the Company may from time to time enter into agreements for the purpose of amending any covenant, agreement or condition of this Note or changing in any manner the rights of the holder of this Note; provided, however, that neither the provisions of Section 4 nor the provisions of this Section 6 of this Note may be amended or modified without the prior written consent of all the Senior Debtholders. Any such amendment or waiver shall be binding upon each future holder of this Note and upon the Company. Upon the request of the Company, the holder hereof shall submit this Note to the Company so that this Note be marked to indicate such amendment or waiver, and any Note issued thereafter shall bear a similar notation referring to any such amendment or continuing waiver.

SECTION 7. Events of Default.

(a) An “Event of Default” occurs if:

(i) default shall be made in the payment of the principal of or cash interest on this Note, when and as the same shall become due and payable (but only, in the case of cash interest on this Note, if the payment thereof would be permitted under the provisions of Section 2(b) hereof), whether at the due date thereof or by acceleration thereof or otherwise and, with respect to the payment of cash interest on this Note, such default shall continue unremedied for 10 days;

(ii) the Company shall (A) apply for or consent to the appointment of a receiver, trustee or liquidator for itself or all or a substantial part of its property, (B) admit in writing its inability to pay its debts as they mature, (C) make a general assignment for the benefit of creditors, (D) be adjudicated as bankrupt or insolvent, or (E) file a voluntary petition in bankruptcy or petition or answer seeking a reorganization or an arrangement with its creditors, (F) take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or statute or file an answer admitting the material allegations of a petition filed against it in any proceeding under any such law or (G) take any corporation action for the purpose of effecting any of the foregoing; or

(iii) an order, judgment or decree shall be entered, without the application, approval or consent of the Company, by any court of competent jurisdiction, approving a petition seeking reorganization of the Company or all or a substantial part of the assets of the Company, or appointing a receiver, trustee or liquidator of the Company, and such order, judgment or decree shall continue unstayed and in effect for any period of 60 days.

(b) If an Event of Default occurs, then the holder of this Note may, upon not less than 10 days' prior written notice to the Company and a representative of each class of Senior Debt (including, without limitation, the administrative agent under the Credit Agreement and the trustee in respect of the Senior Subordinated Notes), declare this Note to be forthwith due and payable, whereupon this Note shall, subject to the provisions of Section 4 hereof, become forthwith due and payable, both as to principal and interest, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived.

SECTION 8. Extension of Maturity.

Should the principal of and interest on this Note become due and payable on other than a business day, the maturity hereof shall be extended to the next succeeding business day, and interest shall be payable at the rate per annum herein specified during such extension. The term "business day" shall mean any day that is not a Saturday, Sunday or other day on which banking institutions are not required by law or regulation to be open in the State of New York.

SECTION 9. Transfer and Exchange; Successors and Assigns.

(a) Subject to the provisions of this Section 9, the holder of this Note (or any portion hereof) or any securities (or portion thereof) issued in respect of this Note may, prior to maturity or prepayment hereof or thereof, surrender this Note or such securities at the principal office of the Company for transfer or exchange. Any holder desiring to transfer or exchange this Note or any securities issued in respect of this Note shall first notify the Company in writing of such transfer or exchange at least two Business Days prior to the desired date of transfer or exchange. Within a reasonable time after such notice to the Company from a holder of its intention to make such exchange and without expense (other than transfer taxes, if any) to such holder, the Company shall, subject to this Section 9, issue in exchange therefor another Note or Notes, in such denominations as requested by the holder, for the same aggregate principal amount, as of the date of such issuance, as the unpaid principal amount of the Note or Notes so surrendered and having the same maturity and rate of interest, containing the same provisions and subject to the same terms and conditions as the Note or Notes so surrendered. Each new Note shall be made payable to such Person or Persons, or assigns, as the holder of such surrendered Note or Notes may designate, and such transfer or exchange shall be made in such a manner that no gain or loss of principal or interest shall result therefrom.

(b) By its acceptance of this Note, the holder of this Note agrees and acknowledges that the Company has informed such holder that:

(i) this Note has not been registered under the Securities Act and this Note, and any securities issued in respect of this Note, must be held indefinitely unless they are subsequently registered under the Securities Act or such sale is permitted pursuant to an available exemption from such registration requirement;

(ii) the offering and sale of this Note is intended to be exempt from registration under the Securities Act by virtue of the provisions of Section 4(2) of the Securities Act; and

(iii) there is no existing public or other market for this Note and there can be no assurance that any holder will be able to sell or dispose of this Note.

(c) By its acceptance of this Note, the holder of this Note represents and warrants to the Company that:

(i) this Note is being acquired for its own account not as a nominee or agent for any other person and without a view to the distribution thereof or any interest therein in violation of the Securities Act;

(ii) the holder is an "Accredited Investor" as such term is defined in Regulation D under the Securities Act and has such knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Notes, and such holder is capable of bearing the economic risks of such investment; and

(iii) the holder has been provided, to its satisfaction, the opportunity to ask questions concerning the terms and conditions of the offering and sale of this Note, has had all such questions answered to its satisfaction and has been supplied all additional information deemed necessary by it to verify the accuracy of the information furnished to it.

(d) The holder of this Note agrees and acknowledges that the Company will not issue or transfer this Note (or any portion hereof) or any securities (or portion thereof) issued in respect of this Note unless the person or entity to whom they are being issued or transferred shall first agree in a writing deposited with the secretary of the Company to be bound by the provisions of this Section 9.

(e) The provision of this Note shall be binding upon and inure to the benefit of the Company and its successors and permitted assigns and the holder of this Note and its successors and permitted assigns.

SECTION 10. Defined Terms.

The following terms, as used herein, have the following respective meanings:

“Affiliate” shall have the meaning set forth in the Credit Agreement.

“Change of Control” has the meaning set forth in the Indenture.

“Credit Agreement” means the credit agreement dated as of August 4, 1999, among the Company, SCG Holding Corporation, the other subsidiaries of SCG Holding Corporation named therein, the lenders named therein and The Chase Manhattan Bank, as administrative agent, collateral agent and syndication agent, as amended, restated, supplemented, waived, replaced (whether or not upon termination and whether with the original lenders or otherwise) restructured, refinanced or otherwise modified from time to time (except as provided in the definition of Leverage Ratio).

“Equity Interests” shall have the meaning set forth in the Credit Agreement.

“Indebtedness” shall have the meaning set forth in the Credit Agreement.

“Indenture” means the Indenture dated August 4, 1999, as amended, restated, supplemented, waived, replaced (whether or not upon termination and whether with the original noteholders or otherwise), restructured, refinanced or otherwise modified from time to time, among the Company, SCG Holding Corporation and the Trustee (as defined therein).

“Leverage Ratio” has the meaning set forth in the Credit Agreement, as in effect on the date hereof.

“Senior Debt” means the principal of, premium (if any) and accrued and unpaid interest on (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization of the Company regardless of whether or not a claim for post-filing interest is allowed in such proceedings), and fees and other amounts owing in respect of, the Credit Agreement, the Senior Subordinated Notes and all other indebtedness of the Company for money borrowed whether outstanding on the date hereof or thereafter incurred, unless in the instrument creating or evidencing the same or pursuant to which the same is outstanding it is provided that such obligations are subordinated in right of payment to this Note; provided, however, that “Senior Debt” of the Company shall not include (i) unsecured trade debt of the Company, which shall rank pari passu with this Note, (ii) any obligation of the Company (other than any obligation

with respect to any Senior Debt owing in respect of the Credit Agreement or the Senior Subordinated Notes) to any Affiliate of the Company, (iii) any liability for federal, state, local or other Taxes owed or owing by the Company, (iv) any obligations with respect to any Equity Interests of the Company, or (v) any Senior Debt incurred in violation of the instruments or agreements governing such Senior Debt or any other Indebtedness incurred in violation of the instruments or agreements governing the Senior Debt.

“Senior Subordinated Notes” means the 12% Senior Subordinated Notes issued under the Indenture.

“Taxes” shall have the meaning set forth in the Credit Agreement.

SECTION 11. Governing Law.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

IN WITNESS WHEREOF, the Company has duly executed and delivered this Note as of the date first written above.

SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC,

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin

Title: Senior Vice President and Chief Financial Officer

Letter for Loan Extension Application

November 5, 2003

To: ICBC Leshan City Branch

Dear Sirs,

In accordance with Section 3.2 of the loan facility ("Loan Agreement") entered into on November 17, 2000 between Leshan-Phoenix Semiconductor Company Limited ("Leshan") and the Industrial and Commercial Bank of China, Leshan hereby requests extensions for the draw-downs under the Loan Agreement, as set forth below. Pursuant to Section 3.2, Leshan requests that the original due date of each draw down be extended by three years. Kindly review and confirm in writing by November 14, 2003 the below loan extensions. All such extensions of maturity shall be on the same terms applied at the time of the original draw-down.

(1) Six loans in dollar with a total of US\$16 million (US\$ Portion as defined in the Loan Agreement).

<u>Principal</u>	<u>Withdraw Date</u>	<u>Original Due Date</u>	<u>Extension Date</u>
\$3.5M	Dec 12, 2000	Dec 12, 2003	Dec 12, 2006
\$3M	Dec 13, 2000	Dec 13, 2003	Dec 13, 2006
\$3.5M	Dec 20, 2000	Dec 20, 2003	Dec 20, 2006
\$2M	Feb 13, 2001	Feb 13, 2004	Feb 13, 2007
\$2M	Mar 5, 2001	Mar 5, 2004	Mar 5, 2007
\$2M	Mar 8, 2001	Mar 8, 2004	Mar 8, 2007

(2) Five loans in RMB with a total of ¥33.2 million (RMB Portion as defined in the Loan Agreement).

<u>Principal</u>	<u>Withdraw Date</u>	<u>Original Due Date</u>	<u>Extension Date</u>
¥4M	Dec 14, 2000	Dec 14, 2003	Dec 14, 2006
¥10M	Jan 9, 2001	Jan 9, 2004	Jan 9, 2007
¥10M	Feb 13, 2001	Feb 13, 2004	Feb 13, 2007
¥8M	Mar 6, 2001	Mar 6, 2004	Mar 6, 2007
¥1.2M	Mar 13, 2001	Mar 13, 2004	Mar 13, 2007

Yours sincerely,

[In this space, translated from Mandarin, is the following: chop of ICBC Leshan City Branch bank with handwritten date of 11/7/03, the signature of the General Manager, Ms. Zhu Xuecun below the statement "agree to extensions."]

Leshan-Phoenix Semiconductor Co. Ltd.

/s/ ALAN ZHANG

Alan Zhang, Financial Controller

THIS LOANS RENEWAL AGREEMENT (hereinafter referred as this 'Agreement') is entered into on March 5, 2004 by

Party A: Leshan Phoenix Semiconductor Co. Ltd.

Party B: Industrial and Commercial Bank of China, Leshan City Branch

In accordance with the friendly mutual consultation by Party A and Party B, NOW it is therefore agreed to make the following supplements to the 'LOAN FACILITY' which was signed by the parties on November 17, 2000, in an amount equal to Twenty Million US Dollars (US\$20,000,000) which was divided into two separate loan facilities; one of RMB33,200,000 (the 'RMB Portion') and one of US\$16,000,000 (the 'US\$ Portion'):

Party B hereby agrees and commits to reloan the principal of each draw-down upon the maturity for one year period and continue to do so for another one year in a row until the reloaning period of each draw-down principal reach up to three years. Interest on each draw-down in RMB will accrue at a rate not to be higher than the base interest rate charged by Party B for one year short term loans adjusted once every year (as such rate is published by Party B's Head Office). Interest on each draw-down in US\$ will accrue at a rate, for each interest calculation period, six (6) month LIBOR published on the 20th day of the last month in the previous quarter plus 150 BPs per annum, being 6 Months LIBOR plus 1.5%.

At the time of the reloaning of each loan on the maturity date of each draw-down, Party A and Party B shall execute a loan contract as formatted in Exhibit A (for draw-downs under the US\$ Portion) and Exhibit B (for draw-downs under the RMB Portion) of the 'LOAN FACILITY'.

This Agreement consist of an English language version and a Chinese language version. The English and Chinese language versions shall have the same legal effect.

This Agreement is executed in 4 originals respectively in the English language and Chinese language and each party shall retain 2 originals of each language.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized representatives to execute this Agreement on the date first above written.

LESHAN-PHOENIX SEMICONDUCTOR COMPANY LIMITED (SEAL)

Authorized Representative: /s/ H. F. LEE

INDUSTRIAL & COMMERCIAL BANK OF CHINA, LESHAN CITY BRANCH (SEAL)

Authorized Representative: [In this space, translated from Mandarin, is the following: chop of ICBC Leshan City Bank with the signature of the General Manager, Ms. Zhu Xuecun.]

AMENDMENT AND RESTATEMENT AGREEMENT dated as of November 25, 2003 (this "Agreement"), among ON SEMICONDUCTOR CORPORATION (formerly known as SCG HOLDING CORPORATION) ("Holdings"), SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC (the "Borrower"), the LENDERS party hereto and JPMORGAN CHASE BANK (formerly known as THE CHASE MANHATTAN BANK), as administrative agent (the "Administrative Agent"), under the Credit Agreement dated as of August 4, 1999, as amended and restated as of September 17, 2003 (as amended, supplemented and modified and in effect on the date hereof, the "Existing Credit Agreement"), among Holdings, the Borrower, the lenders party thereto and the Administrative Agent.

WHEREAS Holdings and the Borrower have requested, and the Restatement Lenders and the Administrative Agent have agreed, upon the terms and subject to the conditions set forth herein, that (a) the Renewing Term Lenders referred to below and the Additional Tranche E Lenders referred to below extend credit in the form of Tranche E Term Loans on the Restatement Effective Date in an aggregate principal amount equal to \$368,517,162 and (b) the Existing Credit Agreement be amended and restated as provided herein.

NOW, THEREFORE, Holdings, the Borrower, the Restatement Lenders and the Administrative Agent hereby agree as follows:

SECTION 1. Defined Terms. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Restated Credit Agreement referred to below. As used in this Agreement, "Restatement Lenders" means, at any time, (a) the Required Lenders under (and as defined in) the Existing Credit Agreement, (b) the Renewing Term Lenders referred to below and (c) the Additional Tranche E Lenders referred to below.

SECTION 2. Restatement Effective Date. (a) The transactions provided for in Sections 3 and 4 hereof shall be consummated at a closing to be held on the Restatement Effective Date at the offices of Cravath, Swaine & Moore LLP, or at such other time and place as the parties hereto shall agree upon.

(b) The "Restatement Effective Date" shall be specified by the Borrower, and shall be a date not later than November 26, 2003, as of which all the conditions set forth or referred to in Section 5 hereof shall have been satisfied. The Borrower, by giving not less than one Business Day's written notice, (i) shall propose a date as the Restatement Effective Date to the Administrative Agent and (ii) may change a previously proposed date for the Restatement Effective Date, provided that the Borrower agrees that the provisions of Section 2.16 of the Restated Credit Agreement shall apply in the event of any such change. The Administrative Agent shall notify the Restatement Lenders of the proposed date. This Agreement shall terminate at 5:00 p.m., New York City time, on

November 26, 2003, if the Restatement Effective Date shall not have occurred at or prior to such time.

SECTION 3. Tranche E Term Loans. (a) Each existing Tranche B Lender, Tranche C Lender and Tranche D Lender (in each case, an “Existing Term Lender”) that executes and delivers this Agreement specifically in the capacity of a renewing Lender (a “Renewing Term Lender”) will be deemed upon the Restatement Effective Date to have agreed to the terms of this Agreement and to have made a commitment to make Tranche E Term Loans in an aggregate principal amount up to, but not in excess of, the aggregate principal amount of such Existing Term Lender’s Tranche B Term Loans, Tranche C Term Loans or Tranche D Loans immediately prior to the Restatement Effective Date (collectively, the “Existing Term Loans”). Each Existing Term Lender that executes and delivers this Agreement solely in the capacity of an Existing Term Lender and not specifically as a Renewing Term Lender shall be deemed to have agreed to this Agreement but will not be deemed by virtue of such execution and delivery to have undertaken any commitment to make Tranche E Term Loans. Each Person (other than a Renewing Term Lender in its capacity as such) that agrees to make Tranche E Term Loans (an “Additional Tranche E Lender”) will, on the Restatement Effective Date, make such Tranche E Term Loans to the Borrower in the manner contemplated by paragraph (c) of this Section.

(b) Subject to the terms and conditions set forth herein, (i) each Renewing Term Lender agrees to make Tranche E Term Loans on the Restatement Effective Date in amounts up to its Tranche E Term Loan Commitment and (ii) each Additional Term Lender agrees to make Tranche E Term Loans to the Borrower on the Restatement Effective Date in amounts up to its Tranche E Term Loan Commitment. Such Tranche E Term Loans shall be made in the manner contemplated by paragraph (c) of this Section. For purposes hereof, a Person shall become an Additional Tranche E Lender and a party to the Restated Credit Agreement by executing and delivering to the Administrative Agent, on or prior to the Restatement Effective Date, either (A) a signature page to this Agreement setting forth the amounts of Tranche E Term Loans that such Person commits to make on the Restatement Effective Date or (B) a written instrument in a form satisfactory to the Administrative Agent and the Borrower (a “Joinder Agreement”), pursuant to which such Person (1) commits to make Tranche E Term Loans on the Restatement Effective Date in the amounts set forth in such Joinder Agreement and (2) agrees to become party to the Restated Credit Agreement as a Tranche E Lender and to be bound by the provisions of the Restated Credit Agreement from and after the Restatement Effective Date. The “Tranche E Term Loan Commitment” (x) of any Renewing Term Lender will be such amount (not in excess of the amount of its Existing Term Loans) as is determined by J.P. Morgan Securities Inc. (“JPMorgan”) and notified to such Lender prior to the Restatement Effective Date and (y) of any Additional Tranche E Lender will be the amount of such commitment set forth in its signature page hereto or in its Joinder Agreement, as applicable, or such lesser amount as is allocated to it by the Borrower and JPMorgan and notified to it prior to the Restatement Effective Date. The commitments of the Renewing Term Lenders and the Additional Tranche E Lenders are several and no such Lender will be responsible for any other Lender’s failure to make Tranche E Term Loans.

(c) Each Renewing Tranche E Lender and each Additional Tranche E Lender will make Tranche E Term Loans on the Restatement Effective Date by (i) exchanging its Existing Term Loans, if any, for Tranche E Term Loans in an equal principal amount (to the extent the amounts of such Existing Term Loans, if any, do not exceed the Tranche E Term Loan Commitment of such Lender) and (ii) transferring to the Administrative Agent, in the manner contemplated by Section 2.06 of the Restated Credit Agreement, an amount equal to the excess, if any, of its Tranche E Term Loan Commitment over the principal amount of its Existing Term Loans exchanged pursuant to clause (i) above.

(d) Tranche E Term Loans shall be made on the Restatement Effective Date as ABR Borrowings. The provisions of Sections 2.02 and 2.06 of the Restated Credit Agreement shall apply for all purposes of making the Tranche E Term Loans, except as otherwise provided herein.

(e) The Borrower hereby irrevocably directs the Administrative Agent to apply the proceeds of the Tranche E Term Loans received by the Administrative Agent on the Restatement Effective Date to prepay, pursuant to Section 2.11(a) of the Existing Credit Agreement, the Tranche B Term Loans, Tranche C Term Loans and Tranche D Term Loans outstanding as of such date. The Borrower hereby authorizes and directs the Administrative Agent to deduct from the proceeds of the Tranche E Term Loans an amount sufficient to make all such payments on the Restatement Effective Date. On the Restatement Effective Date the Borrower shall pay, without applying the proceeds of the Tranche E Term Loans, accrued and unpaid interest on the Tranche B Term Loans, Tranche C Term Loans or Tranche D Term Loans or any other amounts (including amounts under Section 2.16 of the Existing Credit Agreement) owing in respect of the Tranche B Term Loans, Tranche C Term Loans or Tranche D Term Loans.

(f) Unless the Administrative Agent shall have received notice from a Tranche E Lender prior to the Restatement Effective Date that such Tranche E Lender will not make available to the Administrative Agent such Tranche E Lender's share of such Tranche E Term Loan Borrowing, the Administrative Agent may assume that such Tranche E Lender has made such share available on such date in accordance with this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if any Tranche E Lender has in fact defaulted in making its share of such Tranche E Term Loan Borrowing, then the applicable Tranche E Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such defaulted amount (to the extent so advanced by the Administrative Agent on behalf of such defaulting Tranche E Lender), together with interest on such amount at the interest rate applicable to ABR Loans from the Restatement Effective Date to the date of payment. Upon any such payment by the Borrower, the Borrower shall have the right, at the defaulting Tranche E Lender's expense, upon notice to the defaulting Tranche E Lender and to the Administrative Agent, to require such defaulting Tranche E Lender to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.04 of the Restated Credit Agreement) all its interests, rights and obligations as a Tranche E Lender under the Restated Credit Agreement to another financial institution which shall assume such interests, rights and obligations, provided

that (i) no such assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the assignee shall pay, in immediately available funds on the date of such assignment, (A) to the Administrative Agent, (1) the outstanding principal of, and interest accrued to the date of payment on, the defaulted amount of the Tranche E Term Loans advanced by the Administrative Agent on the defaulting Tranche E Lender's behalf under the Restated Credit Agreement that was not paid by the Borrower to the Administrative Agent pursuant to the preceding sentence and (2) all other amounts accrued for the Administrative Agent's account or owed to it under the Restated Credit Agreement in respect of such defaulted amount of Tranche E Term Loans and (B) to the Borrower, the outstanding principal of, and interest accrued to the date of payment on, the defaulted amount of the Tranche E Term Loans that the Borrower paid to the Administrative Agent pursuant to the preceding sentence.

SECTION 4. Amendment and Restatement of the Existing Credit Agreement; Loans and Letters of Credit. (a) Effective on the Restatement Effective Date, the Existing Credit Agreement (excluding the annexes, schedules and exhibits thereto that are not attached as part of Exhibit A hereto) is hereby amended and restated to read in its entirety as set forth in Exhibit A hereto (the "Restated Credit Agreement"). From and after the effectiveness of such amendment and restatement, the terms "Agreement", "this Agreement", "herein", "hereinafter", "hereto", "hereof" and words of similar import, as used in the Restated Credit Agreement, shall, unless the context otherwise requires, refer to the Existing Credit Agreement as amended and restated in the form of the Restated Credit Agreement, and the term "Credit Agreement", as used in the other Loan Documents, shall mean the Restated Credit Agreement.

(b) All Loans and Letters of Credit outstanding under the Existing Credit Agreement on the Restatement Effective Date (after giving effect to all prepayments made on the Restatement Effective Date) shall continue to be outstanding under the Restated Credit Agreement and the terms of the Restated Credit Agreement will govern the rights of the Lenders with respect thereto.

SECTION 5. Conditions. The consummation of the transactions set forth in Sections 3 and 4 of this Agreement shall be subject to the satisfaction of the following conditions precedent:

(a) The Administrative Agent (or its counsel) shall have received (i) from each of Holdings, the Borrower and the Required Lenders either (A) a counterpart of this Agreement signed on behalf of such party or (B) written evidence satisfactory to the Administrative Agent (which may include facsimile transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement and (ii) either counterparts of this Agreement or Joinder Agreements that, when taken together, bear the signatures of each of the Renewing Term Lenders and Additional Tranche E Lenders.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Restatement Lenders and dated the Restatement Effective Date) of each of (i) Cleary, Gottlieb, Steen &

Hamilton, counsel for the Borrower, substantially in the form of Exhibit B-1, (ii) Gust Rosenfeld P.L.C., Arizona local counsel for the Borrower, substantially in the form of Exhibit B-2, and (iii) Hinckley, Allen & Snyder LLP, Rhode Island local counsel for the Borrower, substantially in the form of Exhibit B-3, and, in the case of each such opinion required by this paragraph, covering such other matters relating to the Loan Parties, the Loan Documents or the Restatement Transactions as the Restatement Lenders shall reasonably request. The Borrower hereby requests such counsel to deliver such opinions.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of each Loan Party, the authorization of the Restatement Transactions and any other customary legal matters relating to the Loan Parties, the Loan Documents or the Restatement Transactions, all in form and substance reasonably satisfactory to the Administrative Agent and its counsel.

(d) Each of the conditions set forth in Section 4.02 of the Restated Credit Agreement shall be satisfied, and the Administrative Agent shall have received a certificate, dated the Restatement Effective Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming satisfaction of the conditions set forth in paragraphs (a) and (b) of Section 4.02 of the Restated Credit Agreement.

(e) The Administrative Agent shall have received all fees and other amounts due and payable in connection with this Agreement and the Existing Credit Agreement on or prior to the Restatement Effective Date, including, to the extent invoiced in writing at least two Business Days prior to the Restatement Effective Date, reimbursement or payment of all reasonable documented out-of-pocket expenses (including fees, charges and disbursements of counsel) required to be reimbursed or paid by any Loan Party hereunder or under any other Loan Document.

(f) The Collateral and Guarantee Requirement shall be satisfied after giving effect to the Restatement Transactions, and in connection therewith the Administrative Agent shall have received (i) a completed Perfection Certificate with respect to the Loan Parties (including the Subsidiaries party to the Reaffirmation Agreement) dated the Restatement Effective Date and signed by an executive officer or Financial Officer of the Borrower, together with all attachments contemplated thereby, (ii) the results of a search of the Uniform Commercial Code (or equivalent) filings made with respect to the Loan Parties (including the Subsidiaries party to the Reaffirmation Agreement) in the jurisdictions contemplated by the Perfection Certificate and the copies of the financing statements (or similar documents) disclosed by such research and evidence reasonably satisfactory to the Administrative Agent that the Liens indicated by such financing statements (or similar documents) are expressly permitted by the Restated Credit Agreement, (iii) all documents and instruments,

including Uniform Commercial Code financing statements, required by law or reasonably requested by the Collateral Agent to be filed, registered or recorded to create the Liens intended to be created by the Security Agreement and the Pledge Agreement (including any supplements thereto), after giving effect to the Restatement Transactions, and perfect such Liens to the extent required by, and with the priority required by, the Security Agreement and the Pledge Agreement and (iv) (A) amendments to each Mortgage with respect to each Mortgaged Property and each Restatement Mortgaged Property providing that the Tranche E Term Loans (in addition to the other Obligations) shall be secured by a Lien on each such Mortgaged Property and Restatement Mortgaged Property, as the case may be, (B) endorsements to existing policy or policies of title insurance issued by a nationally recognized title insurance company, insuring the Lien of each such Mortgage as amended so remains a valid first Lien on the Mortgaged Property or Restatement Mortgaged Property, as the case may be, described therein, free of any other Liens except as expressly permitted by Section 6.02 of the Restated Credit Agreement, together with such endorsements, coinsurance and reinsurance as the Collateral Agent or the Restatement Lenders may reasonably request and (C) such surveys, abstracts, appraisals, legal opinions and other documents as the Collateral Agent or the Restatement Lenders may reasonably request with respect to any such Mortgage or Mortgaged Property or Restatement Mortgaged Property, as the case may be.

(g) A Reaffirmation Agreement substantially in the form of Exhibit C hereto shall have been executed and delivered by each party thereto.

The Administrative Agent shall notify the Borrower and the Restatement Lenders of the Restatement Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the consummation of the transactions set forth in Sections 3 and 4 of this Agreement and the obligations of the Tranche E Lenders to make Tranche E Term Loans hereunder shall not become effective unless each of the foregoing conditions is satisfied at or prior to 5:00 p.m., New York City time, on November 26, 2003 (and, in the event such conditions are not so satisfied or waived, this Agreement shall terminate at such time).

SECTION 6. Effectiveness; Counterparts; Amendments. This Agreement shall become effective when copies hereof which, when taken together, bear the signatures of Holdings, the Borrower, the Administrative Agent and the Restatement Lenders shall have been received by the Administrative Agent. This Agreement may not be amended nor may any provision hereof be waived except pursuant to a writing signed by Holdings, the Borrower, the Administrative Agent and the Restatement Lenders. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement or any Joinder Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 7. No Novation. This Agreement shall not extinguish the Loans outstanding under the Existing Credit Agreement. Nothing herein contained shall be construed as a substitution or novation of the Loans outstanding under the Existing Credit Agreement, which (except for the Tranche B Term Loans, Tranche C Term Loans and Tranche D Term Loans, which shall be prepaid as provided herein) shall remain outstanding after the Restatement Effective Date as modified hereby. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 of the Existing Credit Agreement will continue to be effective as to all matters arising out of or in any way related to facts or events existing or occurring prior to the Restatement Effective Date. This Agreement shall be a Loan Document for all purposes.

SECTION 8. Notices. All notices hereunder shall be given in accordance with the provisions of Section 9.01 of the Restated Credit Agreement.

SECTION 9. Applicable Law; Waiver of Jury Trial. **(a) THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.**

(b) EACH PARTY HERETO HEREBY AGREES AS SET FORTH IN SECTION 9.10 OF THE RESTATED CREDIT AGREEMENT AS IF SUCH SECTION WERE SET FORTH IN FULL HEREIN.

SECTION 10. Headings. The Section headings used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement 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

By: /s/ EDMOND DEFOREST

Name: Edmond DeForest

Title: Vice President

SIGNATURE PAGE TO THE AMENDMENT AND
RESTATEMENT AGREEMENT AMONG ON
SEMICONDUCTOR CORPORATION,
SEMICONDUCTOR COMPONENTS INDUSTRIES,
LLC, THE LENDERS PARTY THERETO AND
JPMORGAN CHASE BANK, AS ADMINISTRATIVE
AGENT

Name of Institution:

JPMORGAN CHASE BANK

By: /s/ EDMOND DEFOREST

Name: Edmond DeForest
Title: Vice President

[Not included in this filing are numerous signature pages for the numerous banks that are Lenders under the Credit Agreement]

Exhibits

Exhibit A	Amended and Restated Credit Agreement
Exhibit B-1	Form of Opinion of Cleary, Gottlieb, Steen & Hamilton
Exhibit B-2	Form of Opinion of Gust Rosenfeld P.L.C.
Exhibit B-3	Form of Opinion of Hinckley, Allen & Snyder LLP
Exhibit C	Form of Reaffirmation Agreement

AMENDED AND RESTATED CREDIT AGREEMENT

dated as of

August 4, 1999,

as Amended and Restated as

of November 25, 2003,

among

ON SEMICONDUCTOR CORPORATION,
SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC,

The Lenders Party Hereto

and

JPMORGAN CHASE BANK,
as Administrative Agent

J.P. MORGAN SECURITIES INC.,
as Co-Advisor, Joint Bookrunner, Joint Lead Arranger
and Co-Syndication Agent

and

CREDIT SUISSE FIRST BOSTON,
as Co-Advisor, Joint Bookrunner, Joint Lead Arranger
and Co-Syndication Agent

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Schedule 3.06	—	Disclosed Matters
Schedule 3.12	—	Subsidiaries
Schedule 3.13	—	Insurance
Schedule 6.01	—	Existing Indebtedness
Schedule 6.02	—	Existing Liens
Schedule 6.04	—	Existing Investments
Schedule 6.10	—	Existing Restrictions

EXHIBITS:

Exhibit A	—	Form of Assignment and Acceptance
Exhibit C	—	Guarantee Agreement
Exhibit D	—	Indemnity, Subrogation and Contribution Agreement
Exhibit E	—	Pledge Agreement
Exhibit F	—	Security Agreement
Exhibit G	—	Collateral Assignment

AMENDED AND RESTATED CREDIT AGREEMENT dated as of August 4, 1999, as amended and restated as of November 25, 2003, among ON SEMICONDUCTOR CORPORATION (formerly known as SCG Holding Corporation), SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC, the LENDERS party hereto and JPMORGAN CHASE BANK (formerly known as The Chase Manhattan Bank), as Administrative Agent.

WHEREAS, Holdings, the Borrower, the lenders party thereto and the Administrative Agent are parties to a Credit Agreement dated as of August 4, 1999, as amended and restated as of September 17, 2003 (as further amended, supplemented and modified, the "Existing Credit Agreement"), as in effect immediately prior to the Restatement Effective Date (as defined herein), which Existing Credit Agreement amended and restated the Credit Agreement dated as of August 4, 1999, as amended and restated as of February 14, 2003, among Holdings, the Borrower, the lenders party thereto and the Administrative Agent which, in turn, amended and restated the April 2000 Credit Agreement (as defined herein) which, in turn, amended and restated the Original Credit Agreement (as defined herein);

WHEREAS, Holdings, the Borrower, the Restatement Lenders (as defined therein) and the Administrative Agent are parties to an Amendment and Restatement Agreement dated as of November 25, 2003 (the "Amendment and Restatement Agreement"); and

WHEREAS, subject to the satisfaction of the conditions set forth in the Amendment and Restatement Agreement, the Existing Credit Agreement shall be amended and restated as provided herein.

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Acquisition" means the acquisition pursuant to the Acquisition Agreement by the Borrower of all the outstanding capital stock of Cherry Semiconductor for a purchase price not to exceed \$250,000,000 and the other transactions contemplated by the Acquisition Agreement and the documents related thereto.

“Acquisition Agreement” means the Stock Purchase Agreement dated as of March 8, 2000, between the Borrower, Holdings and the Seller.

“Acquisition Transactions” means the Acquisition and the Loan Transactions entered into in connection with the borrowing of the Tranche D Term Loans.

“Actual Alternative Currency LC Exposure” means, at any time, the sum of (a) the Dollar Equivalent of the aggregate undrawn amount of all outstanding Alternative Currency Letters of Credit at such time plus (b) the Dollar Equivalent of the aggregate principal amount of all LC Disbursements in respect of Alternative Currency Letters of Credit that have not yet been reimbursed by or on behalf of the Borrower at such time.

“Actual LC Exposure” means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit (other than Alternative Currency Letters of Credit) at such time plus (b) the aggregate amount of all LC Disbursements (other than LC Disbursements in respect of Alternative Currency Letters of Credit) that have not yet been reimbursed by or on behalf of the Borrower at such time plus (c) the Actual Alternative Currency LC Exposure at such time. The Actual LC Exposure of any Revolving Lender at any time shall be its Applicable Percentage of the total Actual LC Exposure at such time.

“Actual Revolving Exposure” means, with respect to any Lender at any time, the sum of (a) the outstanding principal amount of such Lender’s Revolving Loans, (b) such Lender’s Actual LC Exposure and (c) such Lender’s Swingline Exposure at such time.

“Adjusted LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

“Administrative Agent” means JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), in its capacity as Administrative Agent for the Lenders hereunder.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. Notwithstanding the foregoing, no individual shall be deemed to be an Affiliate of a Person solely by reason of his or her being an officer or director of such Person.

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on

such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

“Alternative Currency” means any currency that is freely available, freely transferable and freely convertible into dollars and in which dealings in deposits are carried on in the New York, London or Tokyo interbank markets, provided no such currency (other than British pounds, euros and Japanese yen) shall constitute an “Alternative Currency” unless approved by the Administrative Agent and the Issuing Bank.

“Alternative Currency Letter of Credit” means a Letter of Credit denominated in an Alternative Currency.

“Amendment and Restatement Agreement” has the meaning given to such term in the recitals hereto.

“Applicable Percentage” means, with respect to any Revolving Lender, the percentage of the total Revolving Commitments represented by such Lender’s Revolving Commitment. If the Revolving Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Revolving Commitments most recently in effect, giving effect to any assignments.

“Applicable Rate” means, for any day (a) with respect to any Tranche E Term Loan, 2.25% per annum, in the case of an ABR Loan, or 3.25% per annum, in the case of a Eurodollar Loan, (b) with respect to any ABR Loan or Eurodollar Loan that is a Revolving Loan, 3.00% per annum, in the case of an ABR Loan, or 4.00% per annum, in the case of a Eurodollar Loan, and (c) with respect to the commitment fees payable hereunder, 0.50% per annum.

“Approved Fund” means, with respect to any Lender that is a fund that invests in bank loans and similar commercial extensions of credit, any other fund that invests in bank loans and similar commercial extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

“April 2000 Credit Agreement” means the Credit Agreement dated as of August 4, 1999, as amended and restated as of April 3, 2000, among Holdings, the Borrower, the Lenders party thereto and The Chase Manhattan Bank, a New York banking corporation, as administrative agent, collateral agent and syndication agent.

“Assessment Rate” means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as “well-capitalized” and within supervisory subgroup “B” (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States, provided that

if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

“Assignment and Acceptance” means an assignment and acceptance entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

“Base CD Rate” means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (b) the Assessment Rate.

“Bermuda IP Subsidiary” means ON Semiconductor Trading Ltd., a Bermuda corporation that is a wholly-owned subsidiary of the Borrower (owned directly by the Borrower) formed in connection with the Foreign Reorganization.

“Board” means the Board of Governors of the Federal Reserve System of the United States of America.

“Borrower” means Semiconductor Components Industries, LLC, a Delaware limited liability company.

“Borrowing” means (a) Loans of the same Class and Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect, or (b) a Swingline Loan.

“Borrowing Request” means a request by the Borrower for a Borrowing in accordance with Section 2.03.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed, provided that, when used in connection with a Eurodollar Loan, the term “Business Day” shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

“Calculation Date” means (a) the date of issuance of any Alternative Currency Letter of Credit, (b) the last Business Day of each calendar month and (c) if on the last Business Day of any calendar week the total Notional Revolving Exposures exceed 90% of the total Revolving Commitments (giving effect to any reductions in the Revolving Commitments that occur on such day), such Business Day.

“Capital Expenditures” means, for any period, without duplication, (a) the additions to property, plant and equipment and other capital expenditures of the Borrower and its consolidated Subsidiaries that are (or would be) set forth in a consolidated statement of cash flows of the Borrower for such period prepared in accordance with GAAP and (b) Capital Lease Obligations incurred by the Borrower and its consolidated Subsidiaries during such period, provided that the term “Capital Expenditures” (i) shall

be net of landlord construction allowances, (ii) shall not include expenditures made in connection with the repair or restoration of assets with insurance or condemnation proceeds and (iii) shall not include the purchase price of equipment to the extent consideration therefor consists of used or surplus equipment being traded in at such time or the proceeds of a concurrent sale of such used or surplus equipment, in each case in the ordinary course of business.

“Capital Lease Obligations” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital lease obligations on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Certificate of Designation” means the certificate of designations of Holdings with respect to the Cumulative Preferred Stock.

“Change in Control” means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person other than Holdings of any Equity Interest in Borrower; (b) prior to an IPO, the failure by TPG to own (and retain the right to vote), directly or indirectly, beneficially and of record, Equity Interests in Holdings representing greater than 40% of each of the aggregate ordinary voting power and aggregate equity value represented by the issued and outstanding Equity Interests in Holdings; (c) after an IPO, the failure by TPG to own (and retain the right to vote), directly or indirectly, beneficially and of record, Equity Interests in Holdings representing at least 15% of each of the aggregate ordinary voting power and the aggregate equity value represented by the issued and outstanding Equity Interests in Holdings; (d) after an IPO, the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the Effective Date), of Equity Interests representing a greater percentage of either the aggregate ordinary voting power or the aggregate equity value of Holdings than owned, directly or indirectly, beneficially and of record, by TPG; (e) occupation of a majority of the seats (other than vacant seats) on the board of directors of Holdings by Persons who were neither (i) nominated by the board of directors of Holdings nor (ii) appointed by directors so nominated; (f) the occurrence of a “Change of Control”, as defined in the Subordinated Debt Documents; (g) the occurrence of a “Change of Control” as defined in the Second Lien Documents; or (h) the occurrence of a “Change of Control” as defined in the First Lien Documents.

“Change in Law” means (a) the adoption of any law, rule or regulation after the Effective Date, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the Effective Date or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender’s or the Issuing Bank’s holding company, if any) with any request, guideline or directive (whether or not

having the force of law) of any Governmental Authority first made or issued after the Effective Date.

“Cherry Semiconductor” means Cherry Semiconductor Corporation, a Rhode Island corporation.

“China JV” has the meaning given to such term in Section 6.01(a)(xii).

“Class”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans, Tranche E Term Loans or Swingline Loans and, when used in reference to any Commitment, refers to whether such Commitment is a Revolving Commitment or Tranche E Commitment.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Collateral” means any and all “Collateral”, as defined in any applicable Security Document.

“Collateral Agent” means the “Collateral Agent”, as defined in any applicable Security Document.

“Collateral and Guarantee Requirement” means the requirement that:

(a) the Administrative Agent shall have received from each Loan Party either (i) a counterpart of each of the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement, the Pledge Agreement, the Collateral Assignment, the Security Agreement and the Collateral Sharing Agreement duly executed and delivered on behalf of such Loan Party or (ii) in the case of any Person that becomes a Loan Party after the Effective Date, a supplement to each of the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement, the Pledge Agreement, the Security Agreement and the Collateral Sharing Agreement, in each case in the form specified therein, duly executed and delivered on behalf of such Loan Party;

(b) all outstanding Equity Interests of the Borrower and each Subsidiary owned directly by or directly on behalf of any Loan Party, shall have been pledged pursuant to the Pledge Agreement (except that the Loan Parties shall not be required to pledge more than 65% of the outstanding voting stock of any Foreign Subsidiary and shall not be required to pledge any Equity Interests in any Foreign Joint Venture Company to the extent that such a pledge is prohibited by the constitutive documents of such Foreign Joint Venture Company or applicable law) and the Collateral Agent shall have received certificates or other instruments representing all such Equity Interests, together with stock powers or other instruments of transfer with respect thereto endorsed in blank;

(c) all Indebtedness of Holdings, the Borrower and each Subsidiary that is owing to any Loan Party shall be evidenced by a promissory note and shall have been pledged pursuant to the Pledge Agreement and the Collateral Agent shall have received all such promissory notes, together with instruments of transfer with respect thereto endorsed in blank; provided that the requirements of this paragraph (c) shall not apply to the extent the Collateral Agent has waived compliance with Section 2(b) of the Pledge Agreement and the Required Lenders have consented to such waiver;

(d) all documents and instruments, including Uniform Commercial Code financing statements, required by law or reasonably requested by the Collateral Agent to be filed, registered or recorded to create the Liens intended to be created by the Security Agreement and the Pledge Agreement (including any supplements thereto), after giving effect to the Restatement Transactions, and perfect such Liens to the extent required by, and with the priority required by, the Security Agreement and the Pledge Agreement, shall have been filed, registered or recorded or delivered to the Collateral Agent for filing, registration or recording;

(e) the Administrative Agent shall have received (i) counterparts of a Mortgage with respect to each Mortgaged Property and each Restatement Mortgaged Property and amendments to each such Mortgage providing that the Tranche E Term Loans and the Revolving Loans (in addition to the other Obligations) shall be secured by a Lien on such Mortgaged Property, signed on behalf of the record owner of such Mortgaged Property, (ii) a policy or policies of title insurance issued by a nationally recognized title insurance company, insuring the Lien of each such Mortgage as a valid first Lien on the Mortgaged Property or Restatement Mortgaged Property, as the case may be, described therein, free of any other Liens except as expressly permitted by Section 6.02, together with such endorsements, coinsurance and reinsurance as the Collateral Agent or the Required Lenders may reasonably request, and (iii) such surveys, abstracts, appraisals, legal opinions and other documents as the Collateral Agent or the Required Lenders may reasonably request with respect to any such Mortgage or Mortgaged Property or Restatement Mortgaged Property, as the case may be; and

(f) each Loan Party shall have obtained all material consents and approvals required to be obtained by it in connection with the execution and delivery of all Security Documents (or supplements thereto) to which it is a party, the performance of its obligations thereunder and the granting by it of the Liens thereunder.

“Collateral Assignment” means the Collateral Assignment, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit G, between the Borrower and the Collateral Agent.

“Collateral Sharing Agreement” means the agreement entered into among Holdings, the Borrower, the Collateral Agent and the trustee under the First Lien Note Indenture, providing for (a) the sharing of the Collateral granted pursuant to the Security

Documents on a pari passu basis with the holders of the First Lien Notes, (b) the exercise of remedies under the Security Documents and (c) related intercreditor matters.

“Commitment” means a Revolving Commitment, Tranche E Term Loan Commitment or any combination thereof (as the context requires).

“Consolidated Cash Interest Expense” means, for any period (subject to Section 1.05), the excess of (a) the sum of (i) the interest expense (including (i) the aggregate amount of accrued letter of credit fees and (ii) imputed interest expense in respect of Capital Lease Obligations) of the Borrower and the Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP, (ii) any interest accrued during such period in respect of Indebtedness of the Borrower or any Subsidiary that is required to be capitalized rather than included in consolidated interest expense for such period in accordance with GAAP, (iii) the amount of cash dividends paid on any preferred stock by Holdings during such period and (iv) any cash payments made during such period in respect of obligations referred to in clause (b)(ii) below that were amortized or accrued in a previous period, minus (b) the sum of (i) to the extent included in such consolidated interest expense for such period, non-cash amounts attributable to amortization of financing costs paid in a previous period, plus (ii) to the extent included in such consolidated interest expense for such period, non-cash amounts attributable to amortization of debt discounts or accrued interest or dividends payable in kind for such period (including with respect to the Junior Subordinated Note or the Cumulative Preferred Stock).

“Consolidated EBITDA” means, for any period (subject to Section 1.05), Consolidated Net Income for such period plus (a) without duplication and to the extent deducted in determining such Consolidated Net Income, the sum of (i) consolidated interest expense for such period, (ii) consolidated income tax expense for such period, (iii) all amounts attributable to depreciation and amortization for such period, (iv) the aggregate amount of letter of credit fees accrued during such period, (v) all extraordinary charges during such period, (vi) noncash expenses during such period resulting from the grant of stock options to management and employees of Holdings, the Borrower or any of the Subsidiaries, (vii) the aggregate amount of deferred financing expenses for such period, (viii) all other noncash expenses or losses of Holdings, the Borrower or any of the Subsidiaries for such period (excluding any such charge that constitutes an accrual of or a reserve for cash charges for any future period, with the exception of the 2003 Pension Plan Charge), (ix) any non-recurring fees, expenses or charges realized by Holdings, the Borrower or any of the Subsidiaries for such period related to any offering of capital stock or incurrence of Indebtedness, (x) noncash dividends on the Cumulative Preferred Stock, (xi) cash restructuring charges (A) during the fiscal year ending on December 31, 2001 and the portion of the fiscal year ending on June 30, 2002 (or any fiscal quarter of such portion) not in excess of \$131,000,000 in the aggregate (for all such periods), and (B) during any fiscal year (or any fiscal quarter of any such fiscal year) ending on or prior to December 31, 2002 (or any quarter of such fiscal year) not in excess of an additional \$10,000,000 in the aggregate (for all such periods), (xii) the amount of cash fees, service and product payments, dividends and other distributions actually paid to the Borrower or a Subsidiary by the OnMOS Joint Venture during such period and (xiii) fees and

expenses of Alvarez & Marsal, Inc., paid by or reimbursed by the Borrower pursuant to Section 9.03 hereof and minus (b) without duplication and to the extent included in determining such Consolidated Net Income, (i) any extraordinary gains for such period, (ii) all noncash items increasing Consolidated Net Income for such period (excluding any items that represent the reversal of any accrual of, or cash reserve for, anticipated cash charges in any prior period), (iii) all gains during such period attributable to any sale or disposition of assets (other than in the ordinary course of business) and (iv) \$1.6 million for each fiscal quarter commencing the fiscal quarter ended April 4, 2003, and for each subsequent fiscal quarter until the entire 2003 Pension Plan Charge has been recouped, all determined on a consolidated basis in accordance with GAAP. For purposes of calculating the Leverage Ratio as of any date, if the Borrower or any consolidated Subsidiary has made any Permitted Acquisition or sale, transfer, lease or other disposition of assets outside of the ordinary course of business permitted by Section 6.05 during the period of four consecutive fiscal quarters ending on the date on which the most recent fiscal quarter ended, Consolidated EBITDA for the relevant period for testing compliance shall be calculated after giving pro forma effect thereto, as if such Permitted Acquisition or sale, transfer, lease or other disposition of assets outside of the ordinary course of business (and any related incurrence, repayment or assumption of Indebtedness with any new Indebtedness being deemed to be amortized over the applicable testing period in accordance with its terms) had occurred on the first day of the relevant period for testing compliance.

“Consolidated Net Income” means, for any period, the net income or loss of Holdings, the Borrower and the Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, provided that there shall be excluded from such net income or loss (a) the income of any Person (other than a consolidated Subsidiary) in which any other Person (other than Holdings, the Borrower or any consolidated Subsidiary or any director holding qualifying shares in compliance with applicable law) owns an Equity Interest, except to the extent of the amount of dividends or other distributions actually paid to the Borrower or any of the consolidated Subsidiaries by such Person during such period, and (b) the income or loss of any Person accrued prior to the date on which it becomes a Subsidiary or is merged into or consolidated with the Borrower or any consolidated Subsidiary or the date on which such Person’s assets are acquired by the Borrower or any consolidated Subsidiary. For purposes of calculating Consolidated EBITDA and Excess Cash Flow, Consolidated Net Income shall be calculated excluding all income, expenses, gains, losses and other items of the OnMOS Joint Venture.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. The terms “Controlling” and “Controlled” have meanings correlative thereto.

“Cumulative Preferred Stock” means the 12% Cumulative Preferred Stock of Holdings with an aggregate liquidation preference on the Effective Date of \$209,000,000.

“Default” means any event or condition that constitutes an Event of Default or that upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Disclosed Matters” means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

“dollars” or “\$” refers to lawful money of the United States of America.

“Dollar Equivalent” means, on any date of determination, with respect to any Letter of Credit or LC Disbursement denominated in an Alternative Currency, the equivalent in dollars of such amount, determined by the Administrative Agent pursuant to Section 1.06(a) using the applicable Exchange Rate with respect to such Alternative Currency.

“Effective Date” means August 4, 1999, the date on which the conditions specified in Section 4.01 of the Original Credit Agreement were satisfied.

“Environmental Laws” means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by or with any Governmental Authority, relating in any way to the environment, preservation or restoration of natural resources, the management, Release or threatened Release of any Hazardous Material or to health and safety matters.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, administrative oversight costs, fines, penalties or indemnities), of Holdings, the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the Release or threatened Release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Contribution” means the contribution by TPG of not less than \$337,500,000 to the Investor.

“Equity Interests” means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan under Section 4042 of ERISA; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

“Eurodollar”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

“Event of Default” has the meaning assigned to such term in Article VII.

“Excess Cash Flow” means, for any fiscal year, the sum (without duplication) of:

(a) Consolidated Net Income for such fiscal year, adjusted to exclude any gains or losses attributable to Prepayment Events, plus (without duplication) the amount of cash dividends or other distributions actually paid to the Borrower or a Subsidiary by the OnMos Joint Venture during such period; plus

(b) depreciation, amortization and other non-cash charges or losses deducted in determining such Consolidated Net Income for such fiscal year; plus

(c) the sum of (i) the amount, if any, by which Net Working Capital decreased during such fiscal year plus (ii) the net amount, if any, by which the consolidated deferred revenues of Holdings, the Borrower and the consolidated Subsidiaries increased during such fiscal year; minus

(d) the sum of (i) any non-cash gains included in determining such Consolidated Net Income for such fiscal year plus (ii) the amount, if any, by which Net Working Capital increased during such fiscal year plus (iii) the net amount, if any, by which the consolidated deferred revenues of Holdings, the Borrower and the consolidated Subsidiaries decreased during such fiscal year; minus

(e) Capital Expenditures for such fiscal year (except (i) to the extent attributable to the incurrence of Capital Lease Obligations or otherwise financed by incurring Long-Term Indebtedness or (ii) Capital Expenditures made pursuant to the first proviso to Section 2.11(c)(ii) or the proviso to the first paragraph of Section 6.14); minus

(f) the aggregate principal amount of Long-Term Indebtedness repaid or prepaid by the Borrower and the consolidated Subsidiaries during such fiscal year, excluding (i) Indebtedness in respect of Revolving Loans and Letters of Credit, (ii) Tranche E Term Loans prepaid pursuant to Section 2.11(a), 2.11(c) or (d), and (iii) repayments or prepayments of Long-Term Indebtedness financed by incurring other Long-Term Indebtedness; minus

(g) the aggregate amount of all prepayments of Revolving Loans made during such period to the extent accompanying reductions of the total Revolving Commitments.

“Exchange Rate” means, on any day, with respect to any Alternative Currency, the rate at which such Alternative Currency may be exchanged into dollars, as set forth at approximately 11:00 a.m., New York City time, on such day on the applicable Reuters World Spot Page. In the event that any such rate does not appear on any Reuters World Spot Page, the Exchange Rate shall be determined by reference to such other publicly available service for displaying exchange rates reasonably selected by the Administrative Agent in consultation with the Borrower for such purpose or, at the discretion of the Administrative Agent in consultation with the Borrower, such Exchange Rate shall instead be the arithmetic average of the spot rates of exchange of the Administrative Agent in the market where its foreign currency exchange operations in respect of such Alternative Currency are then being conducted, at or about 10:00 a.m., local time, on such day for the purchase of the applicable Alternative Currency for delivery two Business Days later, provided that, if at the time of any such determination, for any reason, no such spot rate is being quoted, the Administrative Agent may in consultation with the Borrower use any other reasonable method it deems appropriate to determine such rate, and such determination shall be presumed correct absent manifest error.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) doing business, income or franchise taxes imposed on (or measured by) its net income, capital or any similar alternate basis by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction described in clause (a) above and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(b)), any withholding tax that (i) is in effect and would apply to amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates

a new lending office), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to any withholding tax pursuant to Section 2.17(a), or (ii) is attributable to such Foreign Lender's failure to comply with Section 2.17(e).

“Existing Amendment and Restatement Agreement” means the Amendment and Restatement Agreement dated as of September 17, 2003, among Holdings, the Borrower, the Restatement Lenders (as defined therein) and the Administrative Agent.

“Existing Credit Agreement” has the meaning given to such term in the recitals hereto.

“Existing Letters of Credit” means any letters of credit issued pursuant to the Existing Credit Agreement and outstanding immediately prior to the Restatement Effective Date.

“Facilities Transfer” means the transfer by the Borrower and/or one or more of its Subsidiaries of the packaging and testing facilities located in Carmona, Philippines, Seremban, Malaysia and Guadalajara, Mexico, which transfer may involve one or more transactions or series of transactions taking the form of (i) sales, leases or other transfers or dispositions of assets, (ii) sales or other transfers or dispositions of capital stock and/or debt securities of Subsidiaries that directly or indirectly own such facilities, (iii) other types of transfers or dispositions, (iv) facilities closures or (v) any one or combination of the foregoing.

“Federal Funds Effective Rate” means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

“Financial Officer” means a chief financial officer, principal accounting officer, treasurer or controller.

“Financing Transactions” means the transactions undertaken by Holdings, the Borrower and the Subsidiary Loan Parties in connection with the execution and delivery of the Original Credit Agreement and the Subordinated Debt Documents, the issuance of the Subordinated Debt, the issuance by the Borrower of the Junior Subordinated Note and the borrowing of the initial Loans.

“First Lien Documents” means the First Lien Note Indenture, the Collateral Sharing Agreement, and all other instruments, agreements and other documents

evidencing or governing the First Lien Notes or providing for any Guarantee or other right in respect thereof.

“First Lien Note Indenture” means the indenture pursuant to which the First Lien Notes are issued.

“First Lien Notes” means the senior secured first lien notes co-issued by the Borrower and Holdings pursuant to an indenture dated as of March 3, 2003.

“Foreign Joint Venture Companies” means (a) Leshan-Phoenix Semiconductor Co., Ltd., an entity existing under the laws of the People’s Republic of China, (b) Surface Mount Products Malaysia Sendirian Berhad, a private limited liability company existing under the laws of Malaysia, and (c) ON Semiconductor Czech Republic, a.s., a corporation existing under the laws of the Czech Republic.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Foreign Reorganization” means the reorganization of the Borrower’s Foreign Subsidiaries and their operations (as described by the Borrower in its communications to the Lenders prior to October 20, 2000), pursuant to which, among other things, (a) certain activities performed by Foreign Subsidiaries, and certain activities performed by the Borrower, with respect to (i) research and development, (ii) sales and distribution and (iii) manufacturing will begin to be performed by separate Foreign Subsidiaries, (b) certain new Foreign Subsidiaries (including the Bermuda IP Subsidiary) will be formed and the ownership structure of certain existing Foreign Subsidiaries will be reorganized (resulting in, among other things, certain existing Foreign Subsidiaries that are owned directly by the Borrower becoming indirectly owned by the Borrower) and (c) the Borrower will enter into the IP License with the Bermuda IP Subsidiary pursuant to which (i) the Borrower will grant to the Bermuda IP Subsidiary a license to use certain intellectual property owned by the Borrower at the time of such reorganization and certain intellectual property acquired by the Borrower in the future and (ii) the Bermuda IP Subsidiary will agree to pay royalties to the Borrower in consideration therefor.

“Foreign Subsidiary” means any Subsidiary that is organized under the laws of a jurisdiction other than the United States of America or any State thereof or the District of Columbia.

“Funded Indebtedness” means, as of any date, (a) the aggregate principal amount of Indebtedness of the Borrower and the Subsidiaries outstanding as of such date (other than any Indebtedness with respect to which the Borrower is not obligated to pay or accrue any cash interest expense as of such date), in the amount that would be reflected on a balance sheet prepared as of such date on a consolidated basis in accordance with

GAAP, and (b) the aggregate amount of any Guarantee by Holdings, the Borrower or any Subsidiary of any such Indebtedness of any other Person.

“GAAP” means generally accepted accounting principles in the United States of America.

“Governmental Authority” means the government of the United States of America or any other nation, or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantee” of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation, provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business.

“Guarantee Agreement” means the Guarantee Agreement, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit C, among Holdings, the Subsidiary Loan Parties and the Collateral Agent for the benefit of the Secured Parties.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes, and all substances or wastes of any nature regulated pursuant to any Environmental Law.

“Hedging Agreement” means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

“Holdings” means SCG Holding Corporation, a Delaware corporation.

“Indebtedness” of any Person means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such

Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) 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 Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor. Notwithstanding anything to the contrary in this paragraph, the term "Indebtedness" shall not include (a) obligations under Hedging Agreements or (b) agreements providing for indemnification, purchase price adjustments or similar obligations incurred or assumed in connection with the acquisition or disposition of assets or stock.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Indemnity, Subrogation and Contribution Agreement" means the Indemnity, Subrogation and Contribution Agreement, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit D, among the Borrower, the Subsidiary Loan Parties and the Collateral Agent.

"Information Memorandum" means the Confidential Information Memorandum dated March 2000, as modified or supplemented prior to April 3, 2000, relating to the Borrower and the Acquisition Transactions.

"Intercreditor Agreement" means the intercreditor agreement entered into among Holdings, the Borrower, the Administrative Agent and the trustee under the Second Lien Note Indenture (or any other trustee or agent to which Liens are granted under the Second Lien Security Documents), providing for (a) the priority of the Liens granted pursuant to the Security Documents over the Liens granted pursuant to the Second Lien Security Documents and (b) restrictions on the exercise of remedies under the Second Lien Security Documents.

"Interest Election Request" means a request by the Borrower to convert or continue a Revolving Borrowing or Tranche E Term Borrowing in accordance with Section 2.07.

"Interest Expense Coverage Ratio" means, for any period, the ratio of (a) Consolidated EBITDA (plus any Supplemental Interest deducted in calculating

Consolidated EBITDA) to (b) Consolidated Cash Interest Expense (excluding any Supplemental Interest otherwise included therein), in each case for such period.

“Interest Payment Date” means (a) with respect to any ABR Loan (other than a Swingline Loan), the last day of each calendar month, (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than one month’s duration, each day prior to the last day of such Interest Period that occurs at intervals of one month’s duration after the first day of such Interest Period, and (c) with respect to any Swingline Loan, the day that such Loan is required to be repaid.

“Interest Period” means, with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect, provided that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“Investor” means TPG Semiconductor Holdings LLC, a Delaware limited liability company that is wholly owned by TPG.

“IP License” means the license agreement or agreements between the Borrower and the Bermuda IP Subsidiary providing for the licensing of intellectual property to the Bermuda Subsidiary of the Borrower.

“IPO” means a bona fide underwritten initial public offering of voting common stock of Holdings as a direct result of which at least 10% of the aggregate voting common stock of Holdings (calculated on a fully diluted basis after giving effect to all options to acquire voting common stock of Holdings then outstanding, regardless of whether such options are then currently exercisable) is beneficially owned by Persons other than TPG, the Investor, Holdings and their respective Affiliates (including, in the case of Holdings, all directors, officers and employees of Holdings, the Borrower and any Subsidiary).

“Issuing Bank” means JPMorgan Chase Bank, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.05(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term “Issuing

Bank” shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

“Joint Venture Holding Companies” means SCG (Malaysia SMP) Holding Corporation, SCG (Czech) Holding Corporation and SCG (China) Holding Corporation, each a Delaware corporation.

“Junior Subordinated Note” means the 10% Junior Subordinated Note due 2011 of the Borrower.

“LC Disbursement” means a payment made by the Issuing Bank pursuant to a Letter of Credit.

“Lenders” means the Persons listed on Schedule 1 to the Amendment and Restatement Agreement, Schedule 2 to the Existing Amendment and Restatement Agreement and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance. Unless the context otherwise requires, the term “Lenders” includes the Swingline Lender.

“Leshan JV Agreement” means the Joint Venture Contract dated as of March 1, 1995, by and between Leshan Radio Company, Ltd. and Motorola International Development Corporation.

“Letter of Credit” means any letter of credit (including any Existing Letter of Credit) issued pursuant to this Agreement.

“Leverage Ratio” means, on any date, the ratio of (a) Funded Indebtedness as of such date to (b) Consolidated EBITDA (plus, without duplication, any Supplemental Interest deducted in calculating Consolidated EBITDA) for the period of four consecutive fiscal quarters of Holdings ended on such date (or, if such date is not the last day of a fiscal quarter, ended on the last day of the fiscal quarter of Holdings most recently ended prior to such date).

“LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Dow Jones Market Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the LIBO Rate with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market

at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Liquidity Amount” means, at any time, the aggregate amount of cash and Permitted Investments owned by the Borrower and its consolidated subsidiaries at such time, excluding (a) cash or Permitted Investments owned by the OnMOS Joint Venture and (b) cash or Permitted Investments subject to any Lien in favor of any Person other than the Collateral Agent for the benefit of the Secured Parties.

“Loan Documents” means this Agreement, the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement, the Security Documents, the Intercreditor Agreement and the Collateral Sharing Agreement.

“Loan Parties” means Holdings, the Borrower and the Subsidiary Loan Parties.

“Loan Transactions” means the execution, delivery and performance by each Loan Party of the Loan Documents to which it is to be a party, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

“Loans” means the loans made and the loans continued by the Lenders to the Borrower pursuant to this Agreement or the Amendment and Restatement Agreement.

“Long-Term Indebtedness” means any Indebtedness that, in accordance with GAAP, constitutes (or, when incurred, constituted) a long-term liability.

“Material Adverse Effect” means a material adverse effect on (a) the business, assets, operations, properties, financial condition or prospects of Holdings, the Borrower and the Subsidiaries, taken as a whole, (b) the ability of the Loan Parties to perform their obligations under the Loan Documents or (c) any material rights of or benefits available to the Lenders under the Loan Documents.

“Material Indebtedness” means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of Holdings, the Borrower and the Subsidiaries in an aggregate principal amount exceeding \$10,000,000. For purposes of determining Material Indebtedness, the “principal amount” of the obligations of Holdings, the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that Holdings, the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

“Measurement Period” has the meaning assigned to such term in Section 6.14.

“Moody’s” means Moody’s Investors Service, Inc.

“Mortgage” means a mortgage, deed of trust, assignment of leases and rents, leasehold mortgage or other security document granting a Lien on any Mortgaged Property or Restatement Mortgaged Property to secure the Obligations. Each Mortgage shall be reasonably satisfactory in form and substance to the Collateral Agent.

“Mortgaged Property” means, initially, each parcel of real property and the improvements thereto owned by a Loan Party and identified on Schedule 1.01, and includes each other parcel of real property and improvements thereto with respect to which a Mortgage is granted pursuant to Section 5.12 or 5.13.

“Motorola” means Motorola, Inc., a Delaware corporation.

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Net Proceeds” means, with respect to any event (a) the cash proceeds received in respect of such event, including (i) any cash received in respect of any non-cash proceeds, but only as and when received, (ii) in the case of a casualty or other insured damage, insurance proceeds in excess of \$1,000,000, and (iii) in the case of a condemnation or similar event, condemnation awards and similar payments, net of (b) the sum of (i) all reasonable fees and out-of-pocket expenses (including underwriting discounts and commissions and collection expenses) paid or payable by Holdings, the Borrower and the Subsidiaries to third parties in connection with such event, (ii) in the case of a sale, transfer or other disposition of an asset (including pursuant to a sale and leaseback transaction or a casualty or a condemnation or similar proceeding), the amount of all payments required to be made by Holdings, the Borrower and the Subsidiaries as a result of such event to repay Indebtedness (other than Loans) secured by such asset or otherwise subject to mandatory prepayment as a result of such event, and (iii) the amount of all taxes paid (or reasonably estimated to be payable) by Holdings, the Borrower and the Subsidiaries, and the amount of any reserves established by Holdings, the Borrower and the Subsidiaries to fund contingent liabilities reasonably estimated to be payable, in each case during the year that such event occurred or the next succeeding year and that are directly attributable to such event (as determined reasonably and in good faith by the chief financial officer of the Borrower). Notwithstanding anything to the contrary set forth above, the proceeds of any sale, transfer or other disposition of Receivables or Related Property (or any interest therein) pursuant to any Permitted Receivables Financing shall not be deemed to constitute Net Proceeds except to the extent that such sale, transfer or other disposition (a) is the initial sale, transfer or other disposition of Receivables or Related Property (or any interest therein) in connection with the establishment of such Permitted Receivables Financing or (b) occurs in connection with an increase in the aggregate outstanding amount of such Permitted Receivables Financing

over the aggregate outstanding amount of such Permitted Receivables Financing at the time of such initial sale, transfer or other disposition.

“Net Working Capital” means, at any date, (a) the consolidated current assets and non-current deferred income tax assets of Holdings, the Borrower and the consolidated Subsidiaries as of such date (excluding cash and Permitted Investments) minus (b) the consolidated current liabilities and non-current deferred income tax liabilities of Holdings, the Borrower and the consolidated Subsidiaries as of such date (excluding current liabilities that constitute Indebtedness). Net Working Capital at any date may be a positive or negative number. Net Working Capital increases when it becomes more positive or less negative and decreases when it becomes less positive or more negative.

“Notional Alternative Currency LC Exposure” means, at any time, 110% of the Actual Alternative Currency LC Exposure at such time.

“Notional LC Exposure” means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit (other than Alternative Currency Letters of Credit) at such time plus (b) the aggregate amount of all LC Disbursements (other than LC Disbursements in respect of Alternative Currency Letters of Credit) that have not yet been reimbursed by or on behalf of the Borrower at such time plus (c) the Notional Alternative Currency LC Exposure at such time. The Notional LC Exposure of any Revolving Lender at any time shall be its Applicable Percentage of the total Notional LC Exposure at such time.

“Notional Revolving Exposure” means, with respect to any Lender at any time, the sum of (a) the outstanding principal amount of such Lender’s Revolving Loans and (b) such Lender’s Notional LC Exposure and Swingline Exposure at such time.

“Obligations” has the meaning assigned to such term in the Security Agreement.

“OnMOS Joint Venture” means a Person organized (or to be organized) in a jurisdiction outside the United States to which Subsidiaries of Holdings will contribute the assets and operations of their TMOS business.

“Original Credit Agreement” means the Credit Agreement dated as of August 4, 1999, among Holdings, the Borrower, the Lenders party thereto, The Chase Manhattan Bank, a New York banking corporation, as administrative agent, collateral agent and syndication agent and Credit Lyonnais New York Branch, DLJ Capital Funding, Inc. and Lehman Commercial Paper, as co-documentation agents thereunder.

“Other Taxes” means any and all current or future recording, stamp, documentary, excise, transfer, sales, property or similar taxes, charges or levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

“Partial Facilities Transfer” shall have the meaning assigned to such term in Section 6.15.

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Perfection Certificate” means a certificate in the form of Annex 2 to the Security Agreement or any other form approved by the Borrower and the Administrative Agent.

“Permitted Acquisition” means any acquisition (whether by purchase, merger, consolidation or otherwise) by the Borrower or any consolidated Subsidiary of all or substantially all the assets of, or all the Equity Interests in, a Person or division or line of business of a Person if, at the time of and immediately after giving effect thereto, (a) no Default has occurred and is continuing or would result therefrom, (b) the principal business of such Person shall be reasonably related to a business in which the Borrower and the Subsidiaries were engaged on the Effective Date, (c) each Subsidiary formed for the purpose of or resulting from such acquisition shall be a Subsidiary Loan Party and all of the Equity Interests of such Subsidiary Loan Party shall be owned directly by the Borrower or a consolidated Subsidiary Loan Party and all actions required to be taken with respect to such acquired or newly formed Subsidiary Loan Party under Sections 5.12 and 5.13 shall have been taken and (d) Holdings has delivered to the Administrative Agent an officers’ certificate to the effect set forth in clauses (a), (b) and (c) above.

“Permitted Convertible Debt” means Indebtedness of Holdings in respect of subordinated convertible debt securities (i) that is unsecured and subordinated to the Obligations on terms no less favorable to the Lenders than the terms of the Subordinated Debt, (ii) that does not provide for scheduled payments of principal earlier than 91 days after the final scheduled repayment of principal of the Tranche E Term Loans, (iii) that is convertible into common equity of Holdings and (iv) the other terms (excluding the aggregate principal amount and conversion rate thereof) of which are reasonably satisfactory to the Administrative Agent in all material respects.

“Permitted Encumbrances” means:

- (a) Liens imposed by law for taxes or other governmental charges that are not yet due or are being contested in compliance with Section 5.05;
- (b) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.05;
- (c) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations;

(d) Liens (other than Liens on Collateral) to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VII;

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business and minor defects or irregularities in title that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower or any Subsidiary;

(g) ground leases in respect of real property on which facilities owned or leased by the Borrower or any of the Subsidiaries are located;

(h) any interest or title of a lessor under any lease permitted by this Agreement;

(i) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods; and

(j) leases or subleases granted to other Persons and not interfering in any material respect with the business of the Borrower and the Subsidiaries, taken as a whole,

provided that the term “Permitted Encumbrances” shall not include any Lien securing Indebtedness.

“Permitted Investments” means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America);

(b) investments in commercial paper maturing not more than one year after the date of acquisition thereof and having, at such date of acquisition, one of the two highest credit ratings obtainable from S&P or from Moody’s;

(c) investments in certificates of deposit, banker’s acceptances and time deposits maturing not more than one year after the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts and overnight bank deposits issued or offered by, any commercial bank organized under the laws of the United States of America or any State thereof or any foreign

country recognized by the United States of America that has a combined capital and surplus and undivided profits of not less than \$250,000,000 (or the foreign-currency equivalent thereof);

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above or clause (e) or (f) below and entered into with a financial institution satisfying the criteria described in clause (c) above;

(e) securities issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof having maturities of not more than six months from the date of acquisition thereof and, at the time of acquisition, having one of the two highest credit ratings obtainable from S&P or from Moody's;

(f) securities issued by any foreign government or any political subdivision of any foreign government or any public instrumentality thereof having maturities of not more than six months from the date of acquisition thereof and, at the time of acquisition, having one of the two highest credit ratings obtainable from S&P or from Moody's; and

(g) investments in funds that invest solely in one or more types of securities described in clauses (a), (e) and (f) above.

"Permitted Receivables Financing" means any financing pursuant to which (a) the Borrower or any Subsidiary sells, conveys or otherwise transfers to a Receivables Subsidiary, in "true sale" transactions, and (b) such Receivables Subsidiary sells, conveys or otherwise transfers to any other Person or grants a security interest to any other Person in, any Receivables (whether now existing or hereafter acquired) of the Borrower or any Subsidiary or any undivided interest therein, and any assets related thereto (including all collateral securing such Receivables), all contracts and all Guarantees or other obligations in respect of such Receivables, proceeds of such Receivables and other assets that are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitization transactions involving Receivables, provided that the board of directors of Holdings shall have determined in good faith that such Permitted Receivables Financing is economically fair and reasonable to Holdings, the Borrower and the Subsidiaries, taken as a whole.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is an "employer" as defined in Section 3(5) of ERISA.

“Pledge Agreement” means the Pledge Agreement, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit E, among the Loan Parties and the Collateral Agent for the benefit of the Secured Parties, as amended in connection with the issuance of the First Lien Notes, and as further amended from time to time.

“Prepayment Event” means:

(a) any sale, transfer or other disposition (including pursuant to a Permitted Receivables Financing or a sale and leaseback transaction) of any property or asset of the Borrower or any Subsidiary, including any Equity Interest owned by it, other than (i) dispositions described in clauses (a) and (b) of Section 6.05 and (ii) other dispositions resulting in aggregate Net Proceeds not exceeding \$1,000,000 during any fiscal year of the Borrower; or

(b) any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, any property or asset of the Borrower or any Subsidiary, but only to the extent that the Net Proceeds therefrom have not been applied to repair, restore or replace such property or asset within 365 days after such event; or

(c) the incurrence by Holdings, the Borrower or any Subsidiary of any Indebtedness, excluding any Indebtedness (other than, prior to the Transition Date, Permitted Convertible Debt) permitted by Section 6.01; or

(d) prior to the Transition Date, the issuance by Holdings, the Borrower or any Subsidiary of any Equity Interests, other than (i) any such issuance by the Borrower or any Subsidiary to Holdings or the Borrower or to another Subsidiary, (ii) the issuance of Equity Interests expressly permitted by Section 6.01(e), (iii) the issuance of common stock or preferred stock of Holdings pursuant to the TPG Equity Purchase and (iv) Equity Interests issued in the form, or upon the exercise of, options to acquire common stock of Holdings issued to members of management and employees of Holdings, the Borrower or any Subsidiary and options or warrants in respect of the capital stock of Holdings issued as compensation to consultants to Holdings, the Borrower or any Subsidiary.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Qualified Liquidity Financing” means the issuance by Holdings of preferred stock, common stock or warrants in respect of preferred stock or common stock to TPG, or the incurrence by Holdings or the Borrower of Indebtedness for borrowed money owed to TPG, in each case for cash consideration; provided that (a) any such Indebtedness shall be unsecured, (b) the terms of any such preferred stock or Indebtedness

shall not include any covenants, redemption provisions, events of default or other terms that would entitle the holder thereof to make any claim or assert any right or remedy prior to payment in full of the Obligations and termination of the Commitments and (c) prior to any such issuance of preferred stock or incurrence of Indebtedness, TPG and Holdings or the Borrower, as applicable, shall have entered into an agreement with the Administrative Agent, in form and substance reasonably satisfactory to the Administrative Agent, effectively subordinating any and all obligations in respect of such preferred stock or Indebtedness to the Obligations and providing that, prior to repayment in full of all the Obligations and termination of the Commitments, the holder or holders of such preferred stock or Indebtedness, as applicable, shall not be entitled to receive any cash payments in respect thereof or to exercise any rights or remedies (other than, in the case of clauses (b) and (c) above, rights and remedies the exercise of which would not constitute or result in a Default).

“Recapitalization” means (a) the recapitalization of Holdings in accordance with the Recapitalization Agreement pursuant to which the Investor will acquire approximately 91% of the common stock of Holdings and (b) the related transactions contemplated by the Recapitalization Agreement.

“Recapitalization Agreement” means the Agreement and Plan of Recapitalization and Merger dated as of May 11, 1999, among Motorola, Holdings, the Borrower, the Investor and TPG Semiconductor Acquisition Corp., as amended.

“Recapitalization Documents” means the Recapitalization Agreement, the Reorganization Agreement and the Transition Agreements.

“Receivable” means the Indebtedness and payment obligations of any Person to the Borrower or any of the Subsidiaries or acquired by the Borrower or any of the Subsidiaries (including obligations constituting an account or general intangible or evidenced by a note, instrument, contract, security agreement, chattel paper or other evidence of indebtedness or security) arising from a sale of merchandise or the provision of services by the Borrower or any Subsidiary or the Person from which such Indebtedness and payment obligation were acquired by the Borrower or any of the Subsidiaries, including (a) any right to payment for goods sold or for services rendered and (b) the right to payment of any interest, sales taxes, finance charges, returned check or late charges and other obligations of such Person with respect thereto.

“Receivables Subsidiary” means a corporation or other entity that is a newly formed, wholly owned, bankruptcy-remote, special purpose subsidiary of Holdings, the Borrower or any wholly owned Subsidiary (a) that engages in no activities other than in connection with the financing of Receivables, all proceeds thereof and all rights (contractual or other), collateral and other assets relating thereto, and any business or activities incidental or related to such business (including servicing of Receivables), (b) that is designated by the board of directors of the Borrower (as provided below) as a Receivables Subsidiary, (c) of which no portion of its Indebtedness or any other obligations (contingent or otherwise) (i) is Guaranteed by Holdings, the Borrower or any Subsidiary (other than pursuant to Standard Securitization Undertakings), (ii) is recourse

to or obligates Holdings, the Borrower or any Subsidiary in any way other than pursuant to Standard Securitization Undertakings and other than any obligation to sell or transfer Receivables or (iii) subjects any property or asset of Holdings, the Borrower or any Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, (d) with which none of Holdings, the Borrower or any Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Permitted Receivables Financing) other than on terms no less favorable to Holdings, the Borrower or such Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of Holdings, other than fees payable in the ordinary course of business in connection with servicing Receivables, and (e) to which none of Holdings, the Borrower or any Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results. Upon any such designation, a Financial Officer of the Borrower shall deliver a certificate to the Administrative Agent certifying (a) the resolution of the board of directors of the Borrower giving effect to such designation, (b) that, to the best of such officer's knowledge and belief after consulting with counsel, such designation complied with the foregoing conditions and (c) immediately after giving effect to such designation, no Default shall have occurred and be continuing.

“Register” has the meaning set forth in Section 9.04(c).

“Related Parties” means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

“Related Property” shall mean, with respect to each Receivable:

(a) all the interest of the Borrower or any Subsidiary in the goods, if any, sold and delivered to an obligor relating to the sale that gave rise to such Receivable,

(b) all other security interests or Liens, and the interest of the Borrower or any Subsidiary in the property subject thereto, from time to time purporting to secure payment of such Receivable, together with all financing statements signed by an obligor describing any collateral securing such Receivable and

(c) all guarantees, insurance, letters of credit and other agreements or arrangements of whatever character from time to time supporting or securing payment of such Receivable,

in the case of clauses (b) and (c), whether pursuant to the contract related to such Receivable or otherwise or pursuant to any obligations evidenced by a note, instrument, contract, security agreement, chattel paper or other evidence of Indebtedness or security and the proceeds thereof.

“Release” means any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into the

environment (including ambient air, surface water, groundwater, land surface or subsurface strata) or within any building, structure, facility or fixture.

“Reorganization Agreement” means the Reorganization Agreement dated as of May 11, 1999, by and among Motorola, Holdings and the Borrower, as amended.

“Required Lenders” means, at any time, Lenders having Actual Revolving Exposures, Tranche E Term Loans and unused Commitments representing more than 50% of the sum of the total Actual Revolving Exposures, outstanding Tranche E Term Loans and unused Commitments at such time.

“Restatement Effective Date” has the meaning given to such term in the Amendment and Restatement Agreement.

“Restatement Mortgaged Property” means each parcel of real property and the improvements thereto owned by a Loan Party as a result of the Acquisition and identified on Schedule 1.01(b).

“Restatement Transactions” means the execution and delivery of the Amendment and Restatement Agreement by each Person party thereto, the satisfaction of the conditions to the effectiveness thereof and the consummation of the transactions contemplated thereby, including the borrowing of the Tranche E Term Loans.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interests in Holdings, the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Equity Interests in Holdings, the Borrower or any Subsidiary or any option, warrant or other right to acquire any such Equity Interests in Holdings, the Borrower or any Subsidiary.

“Restructuring Liquidation Sales” means sales of plant, property and equipment for cash consideration as part of restructuring activities in which Holdings, the Borrower or any Subsidiary is, as of April 17, 2002, currently engaged in or committed to engage in, which activities were disclosed to the Administrative Agent prior to April 17, 2002.

“Revolving Availability Period” means the period from and including the Restatement Effective Date to but excluding the earlier of the Revolving Maturity Date and the date of termination of the Revolving Commitments.

“Revolving Commitment” means, with respect to each Lender, the commitment, if any, of such Lender to make Revolving Loans and to acquire participations in Letters of Credit and Swingline Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Actual Revolving Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender’s

Revolving Commitment is set forth on Schedule 2 to the Existing Amendment and Restatement Agreement or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Revolving Commitment, as applicable. The initial aggregate amount of the Lenders' Revolving Commitments is \$25,000,000.

“Revolving Lender” means a Lender with a Revolving Commitment or, if the Revolving Commitments have terminated or expired, a Lender with Actual Revolving Exposure.

“Revolving Loan” means a Loan made pursuant to the first sentence of Section 2.01.

“Revolving Maturity Date” means August 4, 2006, or, if such day is not a Business Day, the next preceding Business Day.

“SCG Restructuring” means the restructuring of the business of the Borrower and the Subsidiaries described in Section 3 of the Information Memorandum.

“S&P” means Standard & Poor's Rating Service.

“SMP JV Agreement” means the Joint Venture Agreement dated as of July 31, 1992, and August 17, 1992, by and between Motorola and Philips Semiconductors International B.V.

“Second Lien Documents” means the Second Lien Note Indenture, the Intercreditor Agreement, the Second Lien Security Documents and all other instruments, agreements and other documents evidencing or governing the Second Lien Notes or providing for any Guarantee or other right in respect thereof.

“Second Lien Note Indenture” means the indenture pursuant to which the Second Lien Notes were issued.

“Second Lien Notes” means the senior secured second lien notes co-issued by the Borrower and Holdings pursuant to the Second Lien Note Indenture in an aggregate principal amount of \$300,000,000.

“Second Lien Security Documents” means any and all security agreements, pledge agreements, mortgages and other agreements and documents pursuant to which any Liens are granted to secure any Indebtedness or other obligations in respect of the Second Lien Notes.

“Secured Parties” has the meaning assigned to such term in the Security Agreement.

“Security Agreement” means the Security Agreement, entered into in connection with the Original Credit Agreement, attached hereto as Exhibit F, among the Borrower, Holdings, the Subsidiary Loan Parties and the Collateral Agent for the benefit

of the Secured Parties, as amended in connection with the issuance of the First Lien Notes, and as further amended from time to time.

“Seller” means The Cherry Corporation, a Delaware corporation.

“Security Documents” means the Security Agreement, the Collateral Assignment, the Pledge Agreement, the Mortgages and each other security agreement or other instrument or document executed and delivered pursuant to Section 5.12 or 5.13 to secure any of the Obligations.

“Senior Leverage Ratio” means, on any date, the ratio of (a) Total Senior Indebtedness as of such date to (b) Consolidated EBITDA (plus, without duplication, any Supplemental Interest deducted in calculating Consolidated EBITDA) for the period of four consecutive fiscal quarters of Holdings ended on such date.

“Standard Securitization Undertakings” means representations, warranties, covenants and indemnities entered into at any time by Holdings, the Borrower or any Subsidiary that are reasonably customary in an accounts receivable transaction.

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in dollars of over \$100,000 with maturities approximately equal to three months and (b) with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Subordinated Debt” means the Senior Subordinated Notes due 2009 issued by Holdings and the Borrower as co-issuers on the Effective Date in the aggregate principal amount of \$400,000,000 and the Indebtedness represented thereby (including the Note Guarantees, Exchange Notes (each as defined in Subordinated Debt Documents), guarantees of Exchange Notes and any replacement Notes).

“Subordinated Debt Documents” means the indenture under which the Subordinated Debt was issued and all other instruments, agreements and other documents evidencing or governing the Subordinated Debt or providing for any Guarantee or other right in respect thereof.

“subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s

consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

“Subsidiary” means any subsidiary of Holdings other than the Borrower. Without limiting the generality of the definition of the term “subsidiary”, it is understood and agreed that each of (a) Tesla Sezam, a.s., a corporation existing under the laws of the Czech Republic, (b) Terosil, a.s., a corporation existing under the laws of the Czech Republic, (c) ON Semiconductor Slovakia a.s. (formerly known as Slovakia Electronic Industries, a.s.), a corporation existing under the laws of Slovakia, and (d) Leshan-Phoenix Semiconductor Co., Ltd., an entity existing under the laws of the People’s Republic of China, is a subsidiary of Holdings as of the Effective Date.

“Subsidiary Loan Party” means any Subsidiary that is not a Foreign Subsidiary or a Receivables Subsidiary.

“Supplemental Interest” has the meaning assigned to such term in the Existing Credit Agreement.

“Swingline Exposure” means, at any time, the aggregate principal amount of all Swingline Loans outstanding at such time. The Swingline Exposure of any Revolving Lender at any time shall be its Applicable Percentage of the total Swingline Exposure at such time.

“Swingline Lender” means JPMorgan Chase Bank, in its capacity as lender of Swingline Loans hereunder.

“Swingline Loan” means a Loan made pursuant to Section 2.04.

“Taxes” means any and all current or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“Three-Month Secondary CD Rate” means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding Business

Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

“Total Senior Indebtedness” means, as of any date, the aggregate principal amount of Indebtedness of Holdings, the Borrower and the Subsidiaries outstanding on such date, determined on a consolidated basis, excluding the Subordinated Debt, any Permitted Convertible Debt, the Junior Subordinated Note, Qualified Liquidity Financing and any other Indebtedness that is effectively subordinated to the Obligations on terms no less favorable to the Lenders than the terms of the Subordinated Debt.

“TPG” means TPG Partners II, L.P. and its Affiliates, provided that no such Affiliate shall be deemed a member of TPG to the extent it ceases to be Controlled by, or under common Control with, TPG Partners II, L.P.

“TPG Equity Purchase” means the purchase by TPG of common stock or preferred stock of Holdings for cash consideration in an amount equal to \$100,000,000 and the immediate contribution by Holdings to the Borrower of such cash as common equity; provided that, in the case of any such purchase of preferred stock, (a) the terms of such preferred stock shall not include any covenants, redemption provisions, events of default or other terms that would entitle the holder thereof to make any claim or assert any right or remedy prior to payment in full of the Obligations and termination of the Commitments and (b) prior to any such issuance of preferred stock, TPG and Holdings shall have entered into an agreement with the Administrative Agent, in form and substance reasonably satisfactory to the Administrative Agent, effectively subordinating any and all obligations in respect of such preferred stock to the Obligations and providing that, prior to the repayment in full of all the Obligations and termination of the Commitments, the holder or holders of such preferred stock shall not be entitled to receive any cash payments in respect thereof or to exercise any rights (other than in the case of clauses (a) and (b) above, rights and remedies the exercise of which would not constitute or result in a Default).

“Tranche”, when used in reference to any Borrowing, refers to whether such Borrowing consists of Revolving Loans or Tranche E Term Loans.

“Tranche A Term Loan” means a Loan made on or after the Effective Date pursuant to clause (a) of Section 2.01 of the Original Credit Agreement.

“Tranche B Term Loan” means a Loan made on the Effective Date pursuant to clause (b) of Section 2.01 of the Original Credit Agreement.

“Tranche C Term Loan” means a Loan made on the Effective Date pursuant to clause (c) of Section 2.01 of the Original Credit Agreement.

“Tranche D Term Loan” means a Loan made pursuant to (a) clause (a) of Section 2.01 of the April 2000 Credit Agreement or (b) Section 3 of the Existing Amendment and Restatement Agreement.

“Tranche E Commitment” means, with respect to each Lender, the commitment, if any, of such Lender to make a Tranche E Term Loan pursuant to Section 3 of the Amendment and Restatement Agreement.

“Tranche E Lender” means a Lender with a Tranche E Commitment or an outstanding Tranche E Term Loan.

“Tranche E Maturity Date” means August 4, 2007, or, if such day is not a Business Day, the next preceding Business Day.

“Tranche E Term Loans” means Loans made pursuant to Section 3 of the Amendment and Restatement Agreement.

“Transactions” means the Restatement Transactions and the Financing Transactions.

“Transition Agreements” means agreements to be entered into with Motorola or its Affiliates as contemplated by the Recapitalization Agreement and as in effect on the Effective Date and as amended from time to time in accordance with Section 6.11(b).

“Transition Date” means the date on which the Borrower shall have delivered to the Administrative Agent financial statements demonstrating that as of the end of the immediately preceding fiscal quarter of Holdings (a) the Leverage Ratio was less than or equal to 3.75 to 1.00, (b) the Senior Leverage Ratio was less than or equal to 2.75 to 1.00 and (c) the Interest Expense Coverage Ratio for the period of four consecutive fiscal quarters ending on the last day of such quarter was greater than or equal to 2.50 to 1.00.

“2003 Pension Plan Charge” means the \$21.5 million cumulative effect charge recorded as of January 1, 2003 relating to the change in accounting method for defined benefit pension plan actuarial gains or losses.

“Type”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a “Revolving Loan”) or by Type (e.g., a “Eurodollar Loan”) or by Class and Type (e.g., a “Eurodollar Revolving Loan”). Borrowings also may be classified and referred to by Class (e.g., a “Revolving Borrowing”) or by Type (e.g., a “Eurodollar Borrowing”) or by Class and Type (e.g., a “Eurodollar Revolving Borrowing”).

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time, provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the Effective Date in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

SECTION 1.05. Interim Financial Calculations. For purposes of determining the Leverage Ratio and the Interest Expense Coverage Ratio:

(a) for any period of four consecutive fiscal quarters ended on or prior to September 30, 2000, Consolidated EBITDA shall be deemed to be the Consolidated EBITDA of Holdings, the Borrower and the Subsidiaries (or their respective predecessor entities) for such period determined on a consolidated basis in accordance with GAAP (it being understood that Consolidated EBITDA for the fiscal quarter ended (i) December 31, 1998, was \$86,500,000, (ii) March 31, 1999, was \$76,300,000 and (iii) June 30, 1999, was \$94,100,000); and

(b) (i) Consolidated Cash Interest Expense for the period of four consecutive fiscal quarters ending on September 30, 1999, shall be equal to the product of (A) Consolidated Cash Interest Expense for the period of two fiscal months ending on September 30, 1999, and (B) a fraction the numerator of which is 12 and the denominator

of which is two, (ii) Consolidated Cash Interest Expense for the period of four consecutive fiscal quarters ending on December 31, 1999, shall be equal to the product of (A) Consolidated Cash Interest Expense for the period of five fiscal months ending on December 31, 1999, and (B) a fraction the numerator of which is 12 and the denominator of which is five, (iii) Consolidated Cash Interest Expense for the period of four consecutive fiscal quarters ending on March 31, 2000, shall be equal to the product of (A) Consolidated Cash Interest Expense for the period of eight fiscal months ending on March 31, 2000, and (B) a fraction the numerator of which is 12 and the denominator of which is eight and (iv) Consolidated Cash Interest Expense for the period of four consecutive fiscal quarters ending on June 30, 2000, shall be equal to the product of (A) Consolidated Cash Interest Expense for the period of 11 fiscal months ending on June 30, 2000, and (B) a fraction the numerator of which is 12 and the denominator of which is 11.

SECTION 1.06. Exchange Rates. (a) Not later than 1:00 p.m., New York City time, on each Calculation Date, the Administrative Agent shall (i) determine the Exchange Rate as of such Calculation Date to be used for calculating the Dollar Equivalent amount of each Alternative Currency in which an Alternative Currency Letter of Credit being issued, outstanding Alternative Currency Letter of Credit or unreimbursed LC Disbursement is denominated and (ii) give notice thereof to the Borrower. The Exchange Rates so determined shall become effective on the first Business Day immediately following the relevant Calculation Date (a "Reset Date"), shall remain effective until the next succeeding Reset Date and shall for all purposes of this Agreement (other than converting into dollars under Sections 2.05(d), (e), (h), (j) and (k) and 2.12(b) the obligations of the Borrower and the Revolving Lenders in respect of LC Disbursements that have not been reimbursed when due) be the Exchange Rates employed in converting any amounts between the applicable currencies in connection with Alternative Currency Letters of Credit.

(b) Not later than 5:00 p.m., New York City time, on each Reset Date, the Administrative Agent shall (i) determine the Actual Alternative Currency LC Exposure and Notional Alternative Currency LC Exposure on such date (after giving effect to any Alternative Currency Letters of Credit issued, renewed or terminated or requested to be issued, renewed or terminated on such date) and (ii) notify the Borrower and the Issuing Bank of the results of such determination.

ARTICLE II

The Credits

SECTION 2.01. Commitments. Subject to the terms and conditions set forth herein, each Revolving Lender agrees to make Revolving Loans to the Borrower from time to time during the Revolving Availability Period in an aggregate principal amount that will not result in such Lender's Notional Revolving Exposure exceeding such Lender's Revolving Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans. Amounts repaid or prepaid in respect of Tranche E Term Loans may not be reborrowed. All Loans outstanding under the Existing Credit Agreement on the

Restatement Effective Date (after giving effect to all prepayments made on the Restatement Effective Date) shall remain outstanding hereunder on the terms set forth herein.

SECTION 2.02. Loans and Borrowings. (a) Each Loan (other than a Swingline Loan) shall be made as part of a Borrowing consisting of Loans of the same Class and Type made by the Lenders ratably in accordance with their respective Commitments of the applicable Class. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder, provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.14, each Revolving Borrowing and Tranche E Term Loan Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith, provided that all Borrowings made on the Effective Date shall be ABR Borrowings. Each Swingline Loan shall be an ABR Loan. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan, provided that (i) any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement and (ii) the Borrower shall not be required to make any greater payment under Section 2.17 to the applicable Lender than such Lender would have been entitled to receive if such Lender had not exercised such option.

(c) At the commencement of each Interest Period for any Eurodollar Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of \$1,000,000 and not less than \$10,000,000. At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of \$500,000 and not less than \$10,000,000, provided that an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Revolving Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e). Each Swingline Loan shall be in an amount that is an integral multiple of \$100,000 and not less than \$500,000. Borrowings of more than one Type and Class may be outstanding at the same time, provided that there shall not at any time be more than a total of six Eurodollar Borrowings outstanding with respect to any Tranche of Borrowings.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Revolving Loan or Tranche E Term Loan if the Interest Period requested with respect thereto would end after the Revolving Maturity Date or Tranche E Maturity Date, respectively.

SECTION 2.03. Requests for Borrowings. To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 10:00 a.m., New York City time, on the

date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of such Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) subject to the proviso to the first sentence of Section 2.02(b), whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;
- (iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and
- (v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.06.

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Revolving Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Swingline Loans. (a) Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time during the Revolving Availability Period, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of outstanding Swingline Loans exceeding \$25,000,000 or (ii) the sum of the total Notional Revolving Exposures exceeding the total Revolving Commitments, provided that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Loans.

(b) To request a Swingline Loan, the Borrower shall notify the Administrative Agent of such request by telephone (confirmed by telecopy), not later than 12:00 noon, New York City time, on the day of a proposed Swingline Loan. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Loan. The Administrative Agent will promptly advise the Swingline Lender of any such notice received from the Borrower. The Swingline Lender shall make each Swingline Loan available to the Borrower by

means of a credit to the general deposit account of the Borrower with the Swingline Lender (or, in the case of a Swingline Loan made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e), by remittance to the Issuing Bank) by 3:00 p.m., New York City time, on the requested date of such Swingline Loan.

(c) The Swingline Lender may by written notice given to the Administrative Agent not later than 12:00 noon, New York City time, on any Business Day require the Revolving Lenders to acquire participations on such Business Day in all or a portion of the Swingline Loans outstanding. Such notice shall specify the aggregate amount of Swingline Loans in which Revolving Lenders will participate. Promptly upon receipt of such notice, the Administrative Agent will give notice thereof to each Revolving Lender, specifying in such notice such Lender's Applicable Percentage of such Swingline Loan or Swingline Loans. Each Revolving Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above, to pay to the Administrative Agent, for the account of the Swingline Lender, such Lender's Applicable Percentage of such Swingline Loan or Swingline Loans. Each Revolving Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Revolving Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Revolving Lenders), and the Administrative Agent shall promptly pay to the Swingline Lender the amounts so received by it from the Revolving Lenders. The Administrative Agent shall notify the Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Loan shall be made to the Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from the Borrower (or other party on behalf of the Borrower) in respect of a Swingline Loan after receipt by the Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent; any such amounts received by the Administrative Agent shall be promptly remitted by the Administrative Agent to the Revolving Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lender, as their interests may appear. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve the Borrower of any default in the payment thereof.

SECTION 2.05. Letters of Credit.

(a) General. On the Restatement Effective Date, each Existing Letter of Credit will automatically, without any action on the part of any Person, be deemed to be a Letter of Credit issued hereunder for the account of the Borrower for all purposes of this Agreement and the other Loan Documents. In addition, subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Administrative Agent and the

Issuing Bank, at any time and from time to time during the Revolving Availability Period and prior to the date that is five Business Days prior to the Revolving Maturity Date. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the currency in which such Letter of Credit is to be denominated (which shall be dollars or, subject to Section 2.20, an Alternative Currency) the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension the total Notional Revolving Exposures shall not exceed the total Revolving Commitments.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Revolving Maturity Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Revolving Lender, and each Revolving Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent in dollars, for the account of the Issuing Bank, such Lender's Applicable Percentage of (i) each LC Disbursement made by the Issuing Bank in dollars and (ii) the Dollar Equivalent (using the Exchange Rates on the date that the relevant LC Disbursement is made), of each LC Disbursement made by the Issuing Bank in an Alternative Currency and, in each case, not reimbursed by

the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason (or, if such reimbursement payment was refunded in an Alternative Currency, the Dollar Equivalent thereof using the Exchange Rates on the date of such refund). Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement, in dollars or (subject to the two immediately succeeding sentences) the applicable Alternative Currency, not later than 2:00 p.m., New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 2:00 p.m., New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt, provided that, in the case of any LC Disbursement made in dollars, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 or 2.04 that such payment be financed with an ABR Revolving Borrowing or Swingline Loan in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing or Swingline Loan. If the Borrower's reimbursement of, or obligation to reimburse, any amounts in any Alternative Currency would subject the Administrative Agent, the Issuing Bank or any Lender to any stamp duty, ad valorem charge or similar tax that would not be payable if such reimbursement were made or required to be made in dollars, the Borrower shall reimburse each LC Disbursement made in such Alternative Currency in dollars, in an amount equal to the Dollar Equivalent, calculated using the applicable Exchange Rate on the date such LC Disbursement is made, of such LC Disbursement. If the Borrower fails to make such payment when due, then (i) if such payment relates to an Alternative Currency Letter of Credit, automatically and with no further action required, the Borrower's obligation to reimburse the applicable LC Disbursement shall be permanently converted into an obligation to reimburse the Dollar Equivalent, calculated using the applicable Exchange Rate on the date that such LC Disbursement was made, of such LC Disbursement and (ii) the Administrative Agent shall promptly notify the Issuing Bank and each Revolving Lender of the applicable LC Disbursement, the Dollar Equivalent thereof (if such LC Disbursement relates to an Alternative Currency Letter of Credit), the payment then due from the Borrower in respect thereof and, in the case of a Revolving Lender, such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Revolving Lender shall pay to the Administrative Agent in dollars its Applicable Percentage of the payment

then due from the Borrower (determined as provided in clause (i) above, if such payment relates to an Alternative Currency Letter of Credit), in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Revolving Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank in dollars the amounts so received by it from the Revolving Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Revolving Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Revolving Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans or a Swingline Loan as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit, any application for the issuance of a Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. None of the Administrative Agent, the Lenders, the Issuing Bank or any of their Related Parties shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank, provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by (i) the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof or (ii) the Issuing Bank's failure to issue a Letter of Credit in accordance with the terms of this Agreement when requested by the Borrower pursuant to Section 2.05(b). The parties hereto expressly agree that, in the absence of gross negligence or willful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised

care in each such determination and each issuance of (or failure to issue) a Letter of Credit. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented that appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder, provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Revolving Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans, provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.13(c) shall apply, provided further that, in the case of an LC Disbursement made under an Alternative Currency Letter of Credit, the amount of interest due with respect thereto shall (i) in the case of any such LC Disbursement that is permitted to be reimbursed and is reimbursed in the relevant Alternative Currency, (A) be payable in the applicable Alternative Currency and (B) bear interest at a rate equal to the rate reasonably determined by the Issuing Bank to be the cost to such Issuing Bank of funding such LC Disbursement plus the Applicable Margin applicable to Eurodollar Loans at such time and (ii) otherwise (A) be payable in dollars, (B) accrue on the Dollar Equivalent, calculated using the Exchange Rates on the date such LC Disbursement was made, of such LC Disbursement and (C) bear interest at the rate per annum then applicable to ABR Revolving Loans, subject to Section 2.13(c). Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Revolving Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank. The Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of the Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.12(b). From and after the

effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Revolving Lenders with Actual LC Exposure representing greater than 50% of the total Actual LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in dollars and in cash equal to the Actual LC Exposure as of such date plus any accrued and unpaid interest thereon, provided that (i) the portions of such amount attributable to undrawn Alternative Currency Letters of Credit or LC Disbursements in an Alternative Currency that the Borrower is not late in reimbursing shall be deposited in the applicable Alternative Currencies in the actual amounts of such undrawn Letters of Credit and LC Disbursements and (ii) upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Section 7.01 of Article VII the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable in dollars, without demand or other notice of any kind. For the purposes of this paragraph, the Actual Alternative Currency LC Exposure shall be calculated using the Exchange Rates on the date notice demanding cash collateralization is delivered to the Borrower. The Borrower also shall deposit cash collateral pursuant to this paragraph as and to the extent required by Section 2.11(b). Each such deposit pursuant to this paragraph or Section 2.11(b) shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the Actual LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Revolving Lenders with Actual LC Exposure representing greater than 50% of the total Actual LC Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within

three Business Days after all Events of Default have been cured or waived. If the Borrower is required to provide an amount of cash collateral hereunder pursuant to Section 2.11(b), such amount (to the extent not applied as aforesaid) shall be returned to the Borrower as and to the extent that, after giving effect to such return, the Borrower would remain in compliance with Section 2.11(b) and no Event of Default shall have occurred and be continuing.

(k) Conversion. In the event that the Loans become immediately due and payable on any date pursuant to Section 7.01, all amounts (i) that the Borrower is at the time or thereafter becomes required to reimburse or otherwise pay to the Administrative Agent in respect of LC Disbursements made under any Alternative Currency Letter of Credit (other than amounts in respect of which the Borrower has deposited cash collateral pursuant to Section 2.05(j), if such cash collateral was deposited in the applicable Alternative Currency to the extent so deposited or applied), (ii) that the Revolving Lenders are at the time or thereafter become required to pay to the Administrative Agent and the Administrative Agent is at the time or thereafter becomes required to distribute to the Issuing Bank pursuant to paragraph (e) of this Section in respect of unreimbursed LC Disbursements made under any Alternative Currency Letter of Credit and (iii) of each Revolving Lender's participation in any Alternative Currency Letter of Credit under which an LC Disbursement has been made shall, automatically and with no further action required, be converted into the Dollar Equivalent, calculated using the Exchange Rates on such date (or in the case of any LC Disbursement made after such date, on the date such LC Disbursement is made), of such amounts. On and after such conversion, all amounts accruing and owed to the Administrative Agent, the Issuing Bank or any Lender in respect of the Obligations described in this paragraph shall accrue and be payable in dollars at the rates otherwise applicable hereunder.

SECTION 2.06. Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 1:00 p.m., New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders, provided that Swingline Loans shall be made as provided in Section 2.04. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City and designated by the Borrower in the applicable Borrowing Request, provided that ABR Revolving Loans and Swingline Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay

to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

(c) Nothing in this Section 2.06 shall be deemed to relieve any Lender from its obligation to fulfill its Commitments hereunder or to prejudice any rights that the Borrower may have against any Lender as a result of any default by any such Lender hereunder (it being understood, however, that no Lender shall be responsible for the failure of any other Lender to fulfill its Commitments hereunder).

SECTION 2.07. Interest Elections. (a) Each Revolving Borrowing and Tranche E Term Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing. This Section shall not apply to Swingline Borrowings, which may not be converted or continued.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

SECTION 2.08. Termination and Reduction of Commitments. (a) Unless previously terminated, (i) the Tranche E Term Loan Commitments shall terminate at 5:00 p.m., New York City time, on the Restatement Effective Date and (ii) the Revolving Commitments shall terminate on the Revolving Maturity Date.

(b) The Borrower may at any time, without premium or penalty, terminate, or from time to time reduce, the Revolving Commitments, provided that (i) each reduction of the Revolving Commitments shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$10,000,000 and (ii) the Borrower shall not terminate or reduce the Revolving Commitments if, after giving effect to any concurrent prepayment of the Revolving Loans in accordance with Section 2.11, the sum of the Notional Revolving Exposures would exceed the total Revolving Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Revolving Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable, provided that a notice of termination of the Revolving Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities,

in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Revolving Commitments shall be permanent. Each reduction of the Revolving Commitments shall be made ratably among the Lenders in accordance with their respective Revolving Commitments.

SECTION 2.09. Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Revolving Loan of such Lender on the Revolving Maturity Date, (ii) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Tranche E Term Loan of such Lender as provided in Section 2.10 and (iii) to the Swingline Lender the then unpaid principal amount of each Swingline Loan on the earlier of the Revolving Maturity Date and the first date after such Swingline Loan is made that is the 15th or last day of a calendar month and is at least five Business Days after such Swingline Loan is made, provided that on each date that a Revolving Borrowing is made, the Borrower shall repay all Swingline Loans that were outstanding on the date such Borrowing was requested.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof, which accounts the Administrative Agent will make available to the Borrower upon its reasonable request.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein, provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans of any Class made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Borrower and the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.10. Amortization of Tranche E Term Loans. (a) Subject to adjustment pursuant to paragraph (c) of this Section, the Borrower shall repay Tranche E Term Borrowings on each date set forth below in the aggregate principal amount set forth opposite such date:

<u>Date</u>	<u>Amount</u>
September 30, 2006	\$3,132,395.88
December 31, 2006	\$121,794,922.17
March 31, 2007	\$121,794,922.17
August 4, 2007	\$121,794,922.17

(b) To the extent not previously paid all Tranche E Term Loans shall be due and payable on the Tranche E Maturity Date.

(c) Any prepayment of a Tranche E Term Borrowing shall be applied to reduce the subsequent scheduled repayments of Tranche E Term Borrowings to be made pursuant to this Section ratably, provided that (i) any prepayment made pursuant to Sections 2.11(c)(i) and 2.11(c)(ii) shall be applied to reduce the scheduled repayments of the Tranche E Term Borrowings to be made pursuant to this Section in reverse chronological order and (ii) prepayments shall be applied to reduce the scheduled repayments of Tranche E Term Borrowings in chronological order to the extent required by Section 2.11(e)(ii).

(d) Prior to any repayment of any Tranche E Term Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings of the applicable Class to be repaid and shall notify the Administrative Agent by telephone (confirmed by telecopy) of such selection not later than 11:00 a.m., New York City time, three Business Days before the scheduled date of such repayment. Each repayment of a Borrowing shall be applied ratably to the Loans included in the repaid Borrowing. Repayments of Tranche E Term Borrowings shall be accompanied by accrued interest on the amount repaid.

SECTION 2.11. Prepayment of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, without premium or penalty (but subject to Section 2.16), subject to the requirements of this Section.

(b) In the event and on each occasion that the sum of the Actual Revolving Exposures exceeds the total Revolving Commitments, the Borrower shall prepay Revolving Borrowings or Swingline Borrowings (or, if no such Borrowings are outstanding, deposit cash collateral in an account with the Administrative Agent pursuant to Section 2.05(j)) in an aggregate amount equal to such excess.

(c) (i) Prior to the Transition Date, in the event and on each occasion that any Net Proceeds are received by or on behalf of Holdings, the Borrower or any Subsidiary in respect of any Prepayment Event, the Borrower shall, within ten Business Days after such Net Proceeds are received, prepay Tranche E Term Borrowings in an

aggregate amount equal to (A) 100% (or 50%, in the case of Net Proceeds from the sale of Equity Interests in the OnMOS Joint Venture) of such Net Proceeds if such Net Proceeds result from an event described in clause (a) of the definition of the term "Prepayment Event", (B) 100% of such Net Proceeds if such Net Proceeds result from an event (other than the issuance of Permitted Convertible Debt) described in clause (b) or (c) of the definition of the term "Prepayment Event" and (C) 50% of such Net Proceeds if such Net Proceeds result from the issuance of Permitted Convertible Debt or an event described in clause (d) of the definition of the term "Prepayment Event".

(ii) After the Transition Date, in the event and on each occasion that any Net Proceeds are received by or on behalf of Holdings, the Borrower or any Subsidiary in respect of any Prepayment Event, the Borrower shall, within ten Business Days after such Net Proceeds are received, prepay Tranche E Term Borrowings in an aggregate amount equal to such Net Proceeds, provided that, in the case of any event described in clause (a) of the definition of the term "Prepayment Event" (other than the sale, transfer or other disposition of Receivables in connection with a Permitted Receivables Financing), if the Borrower shall deliver to the Administrative Agent a certificate of a Financial Officer of Holdings to the effect that Holdings, the Borrower and the Subsidiaries intend to apply the Net Proceeds from such event (or a portion thereof specified in such certificate), within 180 days after receipt of such Net Proceeds, to acquire real property, equipment or other assets to be used in the business of the Borrower and the Subsidiaries, and certifying that no Default has occurred and is continuing, then no prepayment shall be required pursuant to this paragraph in respect of the Net Proceeds in respect of such event (or the portion of such Net Proceeds specified in such certificate, if applicable) except to the extent of any such Net Proceeds therefrom that have not been so applied by the end of such 180-day period, at which time a prepayment shall be required in an amount equal to such Net Proceeds that have not been so applied.

(iii) In the event and on each occasion that any Net Proceeds are received by or on behalf of Holdings, the Borrower or any Subsidiary in respect of (A) the issuance of the Second Lien Notes, (B) any payment by the China JV of any Indebtedness owing to Holdings, the Borrower or any Subsidiary from the Net Proceeds to the China JV of any Indebtedness incurred by the China JV as contemplated by clause (xiv)(1) of Section 6.01(a) or (C) any Indebtedness incurred by the Borrower as contemplated by clause (xiv)(2) of Section 6.01(a), then, in each such case, the Borrower shall, on the date of receipt of such Net Proceeds (in the case of any such Net Proceeds in respect of the issuance of the Second Lien Notes or the incurrence by the Borrower of Indebtedness referred to in the foregoing clause (C)) or within 10 Business Days after such Net Proceeds are received (in the case of any such Net Proceeds in respect of Indebtedness of the China JV), prepay Tranche E Term Borrowings in an aggregate amount equal to such Net Proceeds.

(d) Following the end of each fiscal year of the Borrower, the Borrower shall prepay Tranche E Term Borrowings in an aggregate amount equal to 75% (or, after

the Transition Date, 50%) of Excess Cash Flow for such fiscal year. Each prepayment pursuant to this paragraph shall be made on or before 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 90 days after the end of such fiscal year).

(e) (i) Prior to any optional or mandatory prepayment of Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to paragraph (f) of this Section.

(ii) In the event that any optional or mandatory prepayment is to be made by the Borrower from the Net Proceeds received by or on behalf of Holdings, the Borrower or any Subsidiary in respect of the issuance of any Equity Interests, such prepayment shall be applied to reduce the scheduled repayments of Tranche E Term Borrowings pursuant to the amortization schedule contained in Section 2.10 (as then in effect) in chronological order.

(f) The Borrower shall notify the Administrative Agent (and, in the case of prepayment of a Swingline Loan, the Swingline Lender) by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment, (ii) in the case of prepayment of an ABR Borrowing, not later than 10:00 a.m., New York City time, on the date of prepayment or (iii) in the case of prepayment of a Swingline Loan, not later than 12:00 noon, New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and, in the case of a mandatory prepayment, a reasonably detailed calculation of the amount of such prepayment, provided that, if a notice of optional prepayment of any Loans is given in connection with a conditional notice of termination of the Revolving Commitments as contemplated by Section 2.08, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.08. Promptly following receipt of any such notice (other than a notice relating solely to Swingline Loans), the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.02, except as necessary to apply fully the required amount of a mandatory prepayment or to prepay such Borrowing in full. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13.

SECTION 2.12. Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a commitment fee, which shall accrue at the rate set forth in the definition of the term "Applicable Rate" on the average daily unused amount of the Commitments of such Lender during the period from and including the Effective Date to but excluding the date on which such Commitment terminates (it being understood that no commitment fee shall be payable in respect of the

portion of any Commitment funded on the Effective Date). Accrued commitment fees shall be payable in arrears on the last day of March, June, September and December of each year and on the dates on which the Commitments terminate, commencing on the first such date to occur after the Effective Date. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of computing commitment fees, a Revolving Commitment of a Lender shall be deemed to be used to the extent of the outstanding Revolving Loans and Actual LC Exposure of such Lender (and the Swingline Exposure of such Lender shall be disregarded for such purpose).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Revolving Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate as interest on Eurodollar Revolving Loans on the average daily amount of such Lender's Actual LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Restatement Effective Date to but excluding the later of the date on which such Lender's Revolving Commitment terminates and the date on which such Lender ceases to have any Actual LC Exposure, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 0.25% per annum on the average daily amount of the Actual LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Revolving Commitments and the date on which there ceases to be any Actual LC Exposure, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the Restatement Effective Date, provided that all such fees shall be payable on the date on which the Revolving Commitments terminate and any such fees accruing after the date on which the Revolving Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of calculating the average daily amount of the Actual LC Exposure for any period under this Section 2.12(b), the average daily amount of the Actual Alternative Currency LC Exposure for such period shall be calculated by multiplying (x) the average daily balance of each Alternative Currency Letter of Credit (expressed in the currency in which such Alternative Currency Letter of Credit is denominated) by (y) the Exchange Rate for each such Alternative Currency in effect on the last Business Day of such period or by such other reasonable method that the Administrative Agent deems appropriate.

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of commitment fees and participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

SECTION 2.13. Interest. (a) The Loans comprising each ABR Borrowing (including each Swingline Loan) shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, to the fullest extent permitted by applicable law, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Revolving Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans, upon termination of the Revolving Commitments, provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Revolving Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be prima facie evidence thereof.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be prima facie evidence thereof) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist (it being understood that the Administrative Agent will use commercially reasonable efforts to give such notice as soon as practicable after such circumstances no longer exist), (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.15. Increased Costs. (a) If any Change in Law (except with respect to Taxes, which shall be governed by Section 2.17) shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate or Base CD Rate) or the Issuing Bank; or

(ii) impose on any Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on a Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into

consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be prima facie evidence thereof. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor, and provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.11(f) and is revoked in accordance therewith) or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount reasonably determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate that such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth any

amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be prima facie evidence thereof. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes, provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder or under any other Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be prima facie evidence thereof.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate, provided

that such Foreign Lender has received written notice from the Borrower advising it of the availability of such exemption or reduction and supplying all applicable documentation.

(f) If the Administrative Agent or a Lender or the Issuing Bank has received a refund of any Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, which the Administrative Agent or such Lender or the Issuing Bank is able to identify as such, it shall pay such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 2.17 with respect to the Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses of the Administrative Agent or such Lender or the Issuing Bank and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, however, that the Borrower agrees to pay, upon the request of the Administrative Agent or such Lender or the Issuing Bank, the amount paid to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender or the Issuing Bank in the event the Administrative Agent or such Lender or the Issuing Bank is required to repay such refund to such Governmental Authority. Nothing contained in this Section 2.17(f) shall require the Administrative Agent or any Lender or the Issuing Bank to make available its tax returns (or any other information relating to its Taxes that it deems confidential) to the Borrower or any other Person.

SECTION 2.18. Payments Generally; Pro Rata Treatment; Sharing of Set-Offs. (a) The Borrower shall make each payment required to be made by it hereunder or under any other Loan Document (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to the time expressly required hereunder or under such other Loan Document for such payment (or, if no such time is expressly required, prior to 2:00 p.m., New York City time), on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York, except payments to be made directly to the Issuing Bank or Swingline Lender as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments under each Loan Document shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first,

towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Revolving Loans, Tranche E Term Loans or participations in LC Disbursements or Swingline Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Loans, Tranche E Term Loans and participations in LC Disbursements and Swingline Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans, Tranche E Term Loans and participations in LC Disbursements and Swingline Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans, Tranche E Term Loans and participations in LC Disbursements and Swingline Loans, provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(c), 2.05(d) or (e), 2.06(b), 2.18(d) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.19. Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the reasonable judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Revolving Commitment is being assigned, the Issuing Bank and Swingline Lender), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements and Swingline Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply. Nothing in this Section 2.19 shall be deemed to prejudice any rights that the Borrower may have against any Lender as a result of any default by any such Lender in its obligation to fund Loans hereunder.

SECTION 2.20. Change in Law. Notwithstanding any other provision of this Agreement, if, after the Restatement Effective Date, (a) any Change in Law occurring

after the Restatement Effective Date shall make it unlawful for the Issuing Bank to issue Letters of Credit denominated in an Alternative Currency or (b) there shall have occurred any change in national or international financial, political or economic conditions (including the imposition of or any change in exchange controls) or currency exchange rates that would make it impracticable for the Issuing Bank to issue Letters of Credit denominated in such Alternative Currency for the account of the Borrower, then by prompt written notice thereof to the Borrower and to the Administrative Agent (which notice shall be withdrawn whenever such circumstances no longer exist), the Issuing Bank may declare that Letters of Credit will not thereafter be issued by it in the affected Alternative Currency or Alternative Currencies, whereupon the affected Alternative Currency or Alternative Currencies shall be deemed (for the duration of such declaration) not to constitute an Alternative Currency for purposes of the issuance of Letters of Credit by the Issuing Bank.

ARTICLE III

Representations and Warranties

Each of Holdings and the Borrower represents and warrants to the Lenders that:

SECTION 3.01. Organization; Powers. Each of Holdings, the Borrower and the Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3.02. Authorization; Enforceability. The Transactions entered into and to be entered into by each Loan Party are within such Loan Party's powers and have been duly authorized by all necessary action. This Agreement has been duly executed and delivered by each of Holdings and the Borrower and constitutes, and each other Loan Document to which any Loan Party is to be a party, when executed and delivered by such Loan Party, will constitute, a legal, valid and binding obligation of Holdings, the Borrower or such Loan Party (as the case may be), 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.

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by or before, any Governmental Authority, except such as have been obtained or made and are in full force and effect and except filings necessary to perfect Liens created under the Loan Documents and except where the failure to obtain such consent or approval or make such registration or filing, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, (b) will not

violate any applicable law or regulation or the charter, by-laws or other organizational documents of Holdings, the Borrower or any of the Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default under any material indenture, agreement or other instrument binding upon Holdings, the Borrower or any of the Subsidiaries or any of their assets, or give rise to a right thereunder to require any payment to be made by Holdings, the Borrower or any of the Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of Holdings, the Borrower or any of the Subsidiaries, except Liens created under the Loan Documents.

SECTION 3.04. Financial Condition; No Material Adverse Change. (a) Holdings has heretofore furnished to the Lenders its consolidated balance sheet as of December 31, 1999, and consolidated statement of operations and comprehensive income for the period from August 4, 1999, to December 31, 1999, reported on by PricewaterhouseCoopers LLP, independent public accountants. Such financial statements present fairly, in all material respects, the consolidated financial position and results of operations of Holdings, the Borrower and its consolidated Subsidiaries as of such date and for such period in accordance with GAAP.

(b) Holdings has heretofore furnished to the Lenders a pro forma combined balance sheet and pro forma combined income statement as of and for the pro forma fiscal year ended December 31, 1999, after giving effect to the Acquisition Transactions. Such pro forma consolidated financial statements (i) have been prepared in good faith based on the same assumptions used to prepare the pro forma financial summary included in the Information Memorandum (which assumptions are believed by Holdings and the Borrower to be reasonable), (ii) are based on the best information available to Holdings and the Borrower after due inquiry, (iii) accurately reflect in all material respects all adjustments necessary to give effect to the Acquisition Transactions and (iv) present fairly, in all material respects, the pro forma consolidated financial position and results of operations and cash flows of Holdings, the Borrower and the Subsidiaries as of such date and for such period, as if the Acquisition Transactions had occurred on such date or at the beginning of such period, as applicable.

(c) The Borrower has heretofore furnished to the Administrative Agent the consolidated financial statements of Cherry Semiconductor and its subsidiaries as of and for the fiscal year ended February 28, 1999, reported on by Arthur Andersen LLP, independent public accountants. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of Cherry Semiconductor and its subsidiaries as of such date and for such period in accordance with GAAP.

(d) Except as disclosed in the financial statements referred to in paragraphs (a), (b) and (c) above or the notes thereto or in the Information Memorandum and except for the Disclosed Matters, after giving effect to the Acquisition Transactions, none of Holdings, the Borrower or the Subsidiaries has, as of April 3, 2000, any material contingent liabilities, unusual long-term commitments or unrealized losses.

(e) Since December 31, 1999, there has been no material adverse change in the business, assets, operations, properties, financial condition or prospects of Holdings, the Borrower and its Subsidiaries, taken as a whole.

(f) Since February 28, 1999, there has been no material adverse change in the business, assets, operations, properties, financial condition or prospects of Cherry Semiconductor and its subsidiaries, taken as a whole.

SECTION 3.05. Properties. (a) Holdings, the Borrower and each of the Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business (including its Mortgaged Properties and Restatement Mortgaged Properties), except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes and subject to Permitted Encumbrances.

(b) Holdings, the Borrower and each of the Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by Holdings, the Borrower and the Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(c) Schedule 3.05 sets forth the address of each real property that is owned or leased by the Borrower or any of the Subsidiaries as of the Restatement Effective Date.

(d) As of the Restatement Effective Date, none of Holdings, the Borrower or any of the Subsidiaries has received notice of, or has knowledge of, any material pending or contemplated condemnation proceeding affecting any Mortgaged Property or Restatement Mortgaged Property or any sale or disposition thereof in lieu of condemnation. None of the Mortgaged Property, Restatement Mortgaged Property or any interest therein is subject to any right of first refusal, option or other contractual right to purchase any such Mortgaged Property, Restatement Mortgaged Property or interest therein.

SECTION 3.06. Litigation and Environmental Matters. (a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of Holdings or the Borrower, threatened against or affecting Holdings, the Borrower or any of the Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve any of the Loan Documents or the Transactions.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, none of Holdings, the Borrower or any of the Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply

with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the Effective Date, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements. Each of Holdings, the Borrower and the Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

SECTION 3.08. Investment and Holding Company Status. None of Holdings, the Borrower or any of the Subsidiaries is (a) an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a “holding company” as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.09. Taxes. Holdings, the Borrower and each of the Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) any Taxes that are being contested in good faith by appropriate proceedings and for which Holdings, the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of all such underfunded Plans by an amount that, if it were required to be fully paid, would reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any ERISA Affiliate has engaged in a transaction with respect to any employee benefit plan that would reasonably be expected to result in any material liability to the Borrower or any ERISA Affiliate pursuant to Section 4069 of ERISA.

SECTION 3.11. Disclosure. Holdings and the Borrower have disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which Holdings, the Borrower or any of the Subsidiaries is subject, and all other matters known

to any of them, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. The Information Memorandum and the other reports, financial statements, certificates or other information furnished by or on behalf of any Loan Party to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or thereunder (as modified or supplemented by other information so furnished), taken as a whole, do not contain any material misstatement of fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, provided that (a) with respect to projected financial information, Holdings and the Borrower represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time and (b) with respect to information regarding the semiconductor market and other industry data, Holdings and the Borrower represent only that such information was prepared by third-party industry research firms, and although Holdings and the Borrower believe such information is reliable, Holdings and the Borrower cannot guarantee the accuracy and completeness of the information and have not independently verified such information.

SECTION 3.12. Subsidiaries. Holdings does not have any subsidiaries other than the Borrower and the Subsidiaries. Schedule 3.12 sets forth the name of, and the ownership interest of Holdings in, each Subsidiary and identifies each Subsidiary that is a Subsidiary Loan Party, in each case as of the Restatement Effective Date.

SECTION 3.13. Insurance. Schedule 3.13 sets forth a description of all insurance maintained by or on behalf of Holdings, the Borrower and the Subsidiaries as of April 3, 2000. As of the Restatement Effective Date, all premiums in respect of such insurance that are required to have been paid have been paid. Holdings and the Borrower believe that the insurance maintained by or on behalf of Holdings, the Borrower and the Subsidiaries is adequate in all material respects.

SECTION 3.14. Labor Matters. As of the Restatement Effective Date, there are no material strikes, lockouts or slowdowns against Holdings, the Borrower or any Subsidiary pending or, to the knowledge of Holdings or the Borrower, threatened. Except as could not reasonably be expected to result in a Material Adverse Effect, (a) the hours worked by and payments made to employees of Holdings, the Borrower and the Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with such matters and (b) the consummation of the Restatement Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which Holdings, the Borrower or any Subsidiary is bound.

SECTION 3.15. Solvency. Immediately after the consummation of the Acquisition Transactions to occur on April 3, 2000, and immediately following the making of each Loan made on April 3, 2000, and after giving effect to the application of the proceeds of such Loans, (a) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other

liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (c) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following April 3, 2000.

SECTION 3.16. Senior Indebtedness. The Obligations constitute "Senior Indebtedness" under and as defined in the Subordinated Debt Documents.

SECTION 3.17. Year 2000. Any reprogramming required to permit the proper functioning, in and following the year 2000, of (a) the computer systems of Holdings, the Borrower and the Subsidiaries and (b) equipment containing embedded microchips (including systems and equipment supplied by others, including Motorola and its Affiliates, or with which Holdings's, the Borrower's or any Subsidiary's systems interface, including the systems and equipment of Motorola and its Affiliates) and the testing of all such systems and equipment, as so reprogrammed, has been completed. The cost to Holdings, the Borrower and the Subsidiaries of such reprogramming and testing and of the reasonably foreseeable consequences of year 2000 to Holdings, the Borrower and the Subsidiaries (including reprogramming errors and the failure of others' systems or equipment) will not result in a Material Adverse Effect.

SECTION 3.18. Acquisition. As of April 3, 2000, the Acquisition Agreement has been duly authorized, executed and delivered by each of the parties thereto and constitutes a legal, valid and binding obligation of each such party, 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. A true, correct and complete copy of the Acquisition Agreement has been furnished to the Administrative Agent.

SECTION 3.19. Senior Secured Obligations. All the Obligations constitute "Credit Agreement Obligations" under and as defined in each of the First Lien Note Indenture and the Second Lien Note Indenture. The Liens granted pursuant to the Security Documents are prior to the Liens granted pursuant to the Second Lien Security Documents.

ARTICLE IV

Conditions

SECTION 4.01. [Intentionally Omitted]

SECTION 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to receipt of the request therefor in accordance herewith and to the satisfaction of the following conditions:

(a) The representations and warranties of each Loan Party set forth in the Loan Documents shall be true and correct in all material respects on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct in all material respects as to such earlier date).

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by Holdings and the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section. For purposes of the foregoing, the term "Borrowing" shall not include the continuation or conversion of Loans in which the aggregate amount of such Loans is not being increased.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, each of Holdings and the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. Holdings will furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year of Holdings, its audited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by PricewaterhouseCoopers LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the consolidated financial condition and results of operations of Holdings, the Borrower and the Subsidiaries on a consolidated basis in accordance with GAAP consistently applied;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of Holdings, its unaudited consolidated balance sheet and related statements of operations, stockholders' equity and cash flows as of the end of and

for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the consolidated financial condition and results of operations of Holdings, the Borrower and the Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) concurrently with any delivery of financial statements under paragraph (a) or (b) above, a certificate of a Financial Officer of Holdings (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Section 6.15, and, prior to the Transition Date, Section 6.16 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of Holdings' audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) concurrently with any delivery of financial statements under paragraph (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(e) prior to the commencement of each fiscal year of Holdings, a detailed consolidated budget for such fiscal year (including a projected consolidated balance sheet and related statements of projected operations and cash flow as of the end of and for such fiscal year and setting forth any material assumptions used for purposes of preparing such budget) and, promptly when available, any significant revisions of such budget;

(f) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by Holdings, the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or, in the event the Holdings becomes a publicly traded company, distributed by Holdings to its public stockholders generally, as the case may be;

(g) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of Holdings, the Borrower or any Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request; and

(h) promptly following a request therefor, all documentation and other information that a Lender reasonably requests in order to comply with its ongoing obligations under applicable “know your customer” and anti-money laundering rules and regulations, including the USA Patriot Act.

SECTION 5.02. Notices of Material Events. Holdings and the Borrower will furnish to the Administrative Agent and each Lender written notice of the following promptly upon Holdings’s or the Borrower’s obtaining knowledge thereof:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting Holdings, the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of Holdings, the Borrower and the Subsidiaries in an aggregate amount exceeding \$10,000,000; and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of Holdings setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Information Regarding Collateral. (a) Holdings will furnish to the Administrative Agent prompt written notice of any change (i) in any Loan Party’s corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of any Loan Party’s chief executive office, its principal place of business, any office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility), (iii) in any Loan Party’s jurisdiction of formation, identity or corporate structure or (iv) in any Loan Party’s Federal Taxpayer Identification Number. Holdings agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made, or will have been made within any statutory period, under the Uniform Commercial Code or otherwise that are required in order for the Administrative Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral for the benefit of the Secured Parties. Holdings also agrees promptly to notify the Administrative Agent if any material portion of the Collateral is damaged or destroyed.

(b) Each year, at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to clause (a) of Section 5.01, Holdings shall deliver to the Administrative Agent a certificate of a Financial Officer of Holdings

(i) setting forth the information required pursuant to Section 2 of the Perfection Certificate or confirming that there has been no change in such information since the date of the Perfection Certificate delivered on the Effective Date or the date of the most recent certificate delivered pursuant to this Section and (ii) certifying that all Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and reregistrations, containing a description of the Collateral have been filed of record in each governmental, municipal or other appropriate office in each jurisdiction identified pursuant to clause (i) above to the extent necessary to protect and perfect the security interests under the Security Agreement for a period of not less than 18 months after the date of such certificate (except as noted therein with respect to any continuation statements to be filed within such period).

SECTION 5.04. Existence; Conduct of Business. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, contracts, licenses, permits, privileges, franchises, patents, copyrights, trademarks and trade names material to the conduct of the business of the Borrower and its Subsidiaries, taken as a whole, provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03 or any sale of assets permitted under Section 6.05.

SECTION 5.05. Payment of Obligations. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, pay its Indebtedness and other obligations, including Tax liabilities, before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) Holdings, the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP, (c) such contest effectively suspends collection of the contested obligation and the enforcement of any Lien securing such obligation and (d) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.06. Maintenance of Properties. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, keep and maintain all property material to the conduct of the business of Holdings, the Borrower and the Subsidiaries, taken as a whole, in good working order and condition, ordinary wear and tear excepted.

SECTION 5.07. Insurance. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, maintain, with financially sound and reputable insurance companies (a) insurance in such amounts (with no greater risk retention) and against such risks as are customarily maintained by companies of established repute engaged in the same or similar businesses operating in the same or similar locations and (b) all insurance required to be maintained pursuant to the Security Documents. Holdings will furnish to the Lenders, upon request of the Administrative Agent, information in reasonable detail as to the insurance so maintained.

SECTION 5.08. Casualty and Condemnation. Holdings (a) will furnish to the Administrative Agent and the Lenders prompt written notice of any casualty or other insured damage to any material portion of any Collateral or the commencement of any action or proceeding for the taking of any Collateral or any part thereof or interest therein under power of eminent domain or by condemnation or similar proceeding and (b) will cause the Net Proceeds of any such event (whether in the form of insurance proceeds, condemnation awards or otherwise) to be applied in accordance with the applicable provisions of the Security Documents.

SECTION 5.09. Books and Records; Inspection and Audit Rights. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all material dealings and transactions in relation to its business and activities. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and at such reasonable intervals as may be reasonably requested.

SECTION 5.10. Compliance with Laws. Each of Holdings and the Borrower will, and will cause each of the Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.11. Use of Proceeds and Letters of Credit. The proceeds of the Revolving Loans and Swingline Loans will be used only for general corporate purposes. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X. Letters of Credit will be issued only to support obligations of the Borrower or any Subsidiary incurred in the ordinary course of business. The proceeds of the Tranche E Term Loans will be used only to prepay all Tranche B Term Loans, Tranche C Term Loans and Tranche D Term Loans outstanding on the Restatement Effective Date.

SECTION 5.12. Additional Subsidiaries. If any additional Subsidiary is formed or acquired after the Effective Date, Holdings will, within ten Business Days after such Subsidiary is formed or acquired, notify the Administrative Agent and the Lenders thereof and cause the Collateral and Guarantee Requirement to be satisfied with respect to such Subsidiary (if it is a Subsidiary Loan Party) and with respect to any Equity Interest in or Indebtedness of such Subsidiary owned by or on behalf of any Loan Party.

SECTION 5.13. Further Assurances. (a) Each of Holdings and the Borrower will, and will cause each Subsidiary Loan Party to, execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings,

mortgages, deeds of trust and other documents), that may be required under any applicable law, or which the Administrative Agent or the Required Lenders may reasonably request, to cause the Collateral and Guarantee Requirement to be and remain satisfied, all at the expense of the Loan Parties. Holdings and the Borrower also agree to provide to the Administrative Agent, from time to time upon request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Liens created or intended to be created by the Security Documents.

(b) If any material assets (including any real property or improvements thereto or any interest therein) are acquired by the Borrower or any Subsidiary Loan Party after the Effective Date (other than assets constituting Collateral under the Security Agreement or the Pledge Agreement that become subject to the Lien of the Security Agreement or the Pledge Agreement upon acquisition thereof), the Borrower will notify the Administrative Agent and the Lenders thereof, and, if requested by the Administrative Agent or the Required Lenders, the Borrower will cause such assets to be subjected to a Lien securing the Obligations and will take, and cause the Subsidiary Loan Parties to take, such actions as shall be necessary or reasonably requested by the Administrative Agent to grant and perfect such Liens, including actions described in paragraph (a) of this Section, all at the expense of the Loan Parties.

SECTION 5.14. Interest Rate Protection. As promptly as practicable, and in any event within 90 days after the Effective Date, the Borrower will enter into, and thereafter for a period of not less than three years after the Effective Date will maintain in effect, one or more interest rate protection agreements on such terms and with such parties as shall be reasonably satisfactory to the Administrative Agent, the effect of which shall be to ensure that at least 50% of the outstanding Long-Term Indebtedness of Holdings, the Borrower and the consolidated Subsidiaries is effectively subject to a fixed rate of interest.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, each of Holdings and the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness; Certain Equity Securities. (a) The Borrower will not, and Holdings and the Borrower will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

- (i) Indebtedness created under the Loan Documents;
- (ii) the Subordinated Debt;
- (iii) the Junior Subordinated Note;

(iv) Indebtedness existing on the Effective Date and set forth in Schedule 6.01 and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof or result in an earlier maturity date or decreased weighted average life thereof;

(v) Indebtedness of the Borrower to Holdings or any Subsidiary and of any Subsidiary to the Borrower, Holdings or any other Subsidiary;

(vi) Guarantees by the Borrower and by any Subsidiary of Indebtedness of the Borrower or any other Subsidiary, provided that Guarantees by the Borrower or any Subsidiary Loan Party of Indebtedness of any Subsidiary that is not a Loan Party shall be subject to Section 6.04;

(vii) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations (provided that such Indebtedness is incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement) and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof, provided that the aggregate principal amount of Indebtedness permitted by this clause (vii) shall not exceed \$25,000,000 at any time outstanding;

(viii) Indebtedness of the Borrower or any Subsidiary in respect of workers' compensation claims, self-insurance obligations, performance bonds, surety, appeal or similar bonds and completion guarantees provided by the Borrower and the Subsidiaries in the ordinary course of their business, provided that upon the incurrence of Indebtedness with respect to reimbursement type obligations regarding workers' compensation claims, such obligations are reimbursed within 30 days following such drawing or incurrence;

(ix) Permitted Convertible Debt;

(x) Indebtedness of the Borrower or any Subsidiary that was (Indebtedness of any other Person existing at the time such other Person was merged with or became a Subsidiary, including Indebtedness incurred in connection with, or in contemplation of, such other Person's merging with or becoming a Subsidiary, and extensions, renewals, refinancings and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof or result in an earlier maturity date or decreased weighted average life thereof, provided that the aggregate principal amount of Indebtedness permitted under this clause (x) shall not exceed \$25,000,000 at any time outstanding;

(xi) other unsecured Indebtedness in an aggregate principal amount not exceeding \$50,000,000 at any time outstanding, provided that the

aggregate principal amount of Indebtedness of the Subsidiaries that are not Subsidiary Loan Parties permitted by this clause (xi) shall not exceed \$25,000,000 at any time outstanding;

(xii) Indebtedness of Leshan-Phoenix Semiconductor Co., Ltd. (the "China JV") in an aggregate principal amount not exceeding \$25,000,000 at any time outstanding, provided that such Indebtedness is (i) secured only by assets of the China JV and not by the assets of Holdings, the Borrower or any other Subsidiary and (ii) not Guaranteed by Holdings, the Borrower or any other Subsidiary;

(xiii) the Second Lien Notes, provided that the Second Lien Notes shall not be Guaranteed by any Subsidiary that has not guaranteed the Obligations;

(xiv) Indebtedness for borrowed money incurred (A) by the China JV to refinance Indebtedness owed by the China JV to Holdings, the Borrower or any Subsidiary or (B) by the Borrower, which Indebtedness is guaranteed by the China JV in consideration for the cancelation by Holdings, the Borrower or any Subsidiary, as the case may be, of Indebtedness of the China JV owing to Holdings, the Borrower or such Subsidiary, as the case may be, having an aggregate principal amount that is no greater than the aggregate principal amount of the Indebtedness so canceled; provided that (1) the aggregate principal amount of such Indebtedness shall not exceed \$100,000,000, (2) the interest rate payable by the China JV or the Borrower in respect of any such Indebtedness so incurred is less than the interest rate payable by the China JV in respect of the Indebtedness so repaid (in the case of Indebtedness incurred under clause (A) above) or canceled (in the case of Indebtedness incurred under clause (B) above), (3) such Indebtedness (x) shall not be secured by any Lien other than Liens permitted by Section 6.02(a)(xi), (y) shall not be Guaranteed by any Person other than the China JV and (z) shall not (in the case of Indebtedness incurred pursuant to clause (B) above) mature, and no amortization or principal payment in respect thereof shall be made, prior to the date that is six months after the Tranche E Maturity Date; and

(xv) the First Lien Notes, provided that the First Lien Notes shall not be Guaranteed by any Subsidiary that has not guaranteed the Obligations.

(b) Holdings will not create, incur, assume or permit to exist any Indebtedness except (i) Indebtedness created under the Loan Documents, (ii) the Subordinated Debt and (iii) Indebtedness permitted under clause (a)(v), (a)(xiii) and (a)(xv) of this Section 6.01.

(c) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, issue any preferred stock or other preferred Equity Interests, except that (i) Holdings may issue the Cumulative Preferred Stock, (ii) Holdings may issue preferred stock or other preferred Equity Interests of Holdings that do not require mandatory cash dividends or redemptions and do not provide for any right on the part of the holder to

require redemption, repurchase or repayment thereof, in each case prior to the date that is 91 days after August 4, 2007, and (iii) Holdings, the Borrower or any Subsidiary may issue directors' qualifying shares or shares required by applicable law to be held by a Person other than Holdings, the Borrower or any Subsidiary.

(d) Neither Holdings nor the Borrower will permit the Bermuda IP Subsidiary to create, incur, assume or permit to exist any Indebtedness (regardless of whether permitted under paragraph (a) of this Section) other than Indebtedness of the Bermuda IP Subsidiary owed to the Borrower or a Subsidiary Loan Party that is otherwise permitted by this Agreement.

(e) Notwithstanding anything contained in Section 6.01(a), (b) or (c), (i) Holdings may issue preferred stock, or Holdings or the Borrower may incur Indebtedness, in each case pursuant to a Qualified Liquidity Financing, and (ii) Holdings may issue preferred stock pursuant to the TPG Equity Purchase.

(f) Notwithstanding anything contained in Section 6.01(a), the OnMOS Joint Venture may incur Indebtedness that is guaranteed by Mosel in an aggregate principal amount not exceeding \$10,000,000 at any time outstanding, provided that such Indebtedness shall not be Guaranteed by, or otherwise be recourse to, any of Holdings, the Borrower or the Subsidiaries (other than the OnMOS Joint Venture or any subsidiaries of the OnMOS Joint Venture). Any such Indebtedness of the OnMOS Joint Venture shall be deemed not to be Indebtedness of Holdings, the Borrower and the Subsidiaries for the purpose of calculating Funded Indebtedness and Total Senior Indebtedness and any interest expense with respect to such Indebtedness shall be excluded from consolidated interest expense for the purpose of calculating Consolidated Cash Interest Expense.

SECTION 6.02. Liens. (a) The Borrower will not, and Holdings and the Borrower will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(i) Liens created under the Loan Documents, including those Liens securing the First Lien Notes;

(ii) Permitted Encumbrances;

(iii) any Lien on any property or asset of the Borrower or any Subsidiary existing on the Effective Date and set forth in Schedule 6.02, provided that (A) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and (B) such Lien shall secure only those obligations that it secures on the Effective Date and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(iv) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary or existing on any property

or asset of any Person that becomes a Subsidiary after the Effective Date prior to the time such Person becomes a Subsidiary, provided that (A) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (B) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary and (C) such Lien shall secure only those obligations that it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(v) Liens on fixed or capital assets acquired, constructed or improved by the Borrower or any Subsidiary, provided that (A) such Liens secure Indebtedness permitted by clause (vii) of Section 6.01(a), (B) such security interests and the Indebtedness secured thereby are incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement, (C) the Indebtedness secured thereby does not exceed 100% of the cost of acquiring, constructing or improving such fixed or capital assets and (D) such security interests shall not apply to any other property or assets of the Borrower or any Subsidiary;

(vi) sales of Receivables and Related Property (or undivided interests therein) permitted under Section 6.05(d) and Liens on Receivables of a Receivables Subsidiary granted in connection with any Permitted Receivables Financing;

(vii) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of setoff or similar rights;

(viii) Liens in favor of a landlord on leasehold improvements in leased premises;

(ix) Liens on the assets of the China JV securing Indebtedness incurred by the China JV permitted under clause (xii) of Section 6.01(a);

(x) Liens granted under the Second Lien Security Documents; provided that (A) such Liens secure only obligations in respect of the Second Lien Notes, (B) such Liens do not apply to any asset other than Collateral that is subject to a prior Lien granted under a Security Document and (C) all such Liens and Second Lien Security Documents shall be subject to the terms of the Intercreditor Agreement; and

(xi) Liens on the assets of the China JV securing Indebtedness permitted under clause (xiv) of Section 6.01(a).

(b) Holdings will not create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect thereof, except Liens

created under the Pledge Agreement and the Second Lien Document and Permitted Encumbrances.

SECTION 6.03. Fundamental Changes. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Person may merge with Holdings or the Borrower in a transaction in which the surviving entity is a Person organized or existing under the laws of the United States of America, any State thereof or the District of Columbia and, if such surviving entity is not Holdings or the Borrower, as the case may be, such Person expressly assumes, in writing, all the obligations of Holdings or the Borrower, as the case may be, under the Loan Documents, (ii) any Person may merge with any Subsidiary in a transaction in which the surviving entity is a Subsidiary and, if any party to such merger is a Subsidiary Loan Party, is a Subsidiary Loan Party and (iii) any Subsidiary (other than a Subsidiary Loan Party) may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders, provided that any such merger involving a Person that is not a wholly owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Sections 6.04 and 6.08.

(b) The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries (other than a Receivables Subsidiary) to, engage to any material extent in any business other than businesses of the type conducted by the Borrower and the Subsidiaries on the Effective Date and businesses reasonably related thereto.

(c) Holdings will not engage in any business or activity other than the ownership of all the outstanding shares of capital stock of the Borrower and the Joint Venture Holding Companies and activities incidental thereto. Holdings will not own or acquire any assets (other than shares of capital stock of the Borrower, shares of capital stock of the Joint Venture Holding Companies, cash and Permitted Investments) or incur any liabilities (other than liabilities under the Loan Documents, Guarantees by Holdings of obligations of the Borrower and the Subsidiaries under leases of real property, obligations under any stock option plans or other benefit plans for management or employees of Holdings, the Borrower and the Subsidiaries, liabilities imposed by law, including tax liabilities, and other liabilities incidental to its existence and permitted business and activities).

(d) No Receivables Subsidiary will engage in any business other than the purchase and sale or other transfer of Receivables (or participation interests therein) in connection with any Permitted Receivables Financing, together with activities directly related thereto.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with

any Person that was not a wholly owned Subsidiary prior to such merger) any Equity Interests in or evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) to the extent provided for by the terms of the Recapitalization;

(b) Permitted Investments;

(c) investments existing on the Effective Date hereof and set forth on Schedule 6.04;

(d) investments by the Borrower and the Subsidiaries that are Loan Parties in Equity Interests in their respective Subsidiaries that are Loan Parties and investments by Subsidiaries that are not Loan Parties in Equity Interests in their respective Subsidiaries, provided that any such Equity Interests held by a Loan Party shall be pledged pursuant to the Pledge Agreement (subject to the limitations applicable to voting stock of a Foreign Subsidiary and Equity Interests in the Foreign Joint Venture Companies referred to in the definition of the term "Collateral and Guarantee Requirement");

(e) loans or advances made by the Borrower to Holdings or any Subsidiary and made by Holdings or any Subsidiary to the Borrower or any other Subsidiary, provided that any such loans and advances made by a Loan Party shall be evidenced by a promissory note pledged pursuant to the Pledge Agreement;

(f) Guarantees constituting Indebtedness permitted by Section 6.01 (other than with respect to the Junior Subordinated Note) of Indebtedness of the Borrower or any Subsidiary Loan Party, provided that a Subsidiary shall not Guarantee the Subordinated Debt unless (i) such Subsidiary also has Guaranteed the Obligations pursuant to the Guarantee Agreement, (ii) such Guarantee of the Subordinated Debt is subordinated to such Guarantee of the Obligations on terms no less favorable to the Lenders than the subordination provisions of the Subordinated Debt and (iii) such Guarantee of the Subordinated Debt provides for the release and termination thereof, without action by any party, upon any release or termination of such Guarantee of the Obligations;

(g) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(h) after the Transition Date, Permitted Acquisitions, provided that the sum of all consideration paid or otherwise delivered in connection with Permitted Acquisitions (including the principal amount of any Indebtedness issued as deferred purchase price and the fair market value of any other non-cash

consideration) plus the aggregate principal amount of all Indebtedness otherwise incurred or assumed in connection with, or resulting from, Permitted Acquisitions (including Indebtedness of any acquired Persons outstanding at the time of the applicable Permitted Acquisition) shall not exceed, on a cumulative basis subsequent to the Effective Date, \$50,000,000;

(i) any investments in or loans to any other Person received as noncash consideration for sales, transfers, leases and other dispositions permitted by Section 6.05;

(j) Guarantees by the Borrower and the Subsidiaries of leases entered into by any Subsidiary as lessee;

(k) extensions of credit in the nature of accounts receivable or notes receivable in the ordinary course of business;

(l) investments in payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(m) loans or advances to employees made in the ordinary course of business consistent with prudent business practice and not exceeding \$5,000,000 in the aggregate outstanding at any one time;

(n) investments in or acquisitions of stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Borrower or any Subsidiary or in satisfaction of judgments;

(o) investments in the form of Hedging Agreements permitted under Section 6.07;

(p) investments by the Borrower or any Subsidiary in (i) the capital stock of a Receivables Subsidiary and (ii) other interests in a Receivables Subsidiary, in each case to the extent determined by the Borrower in its judgment to be reasonably necessary in connection with or required by the terms of the Permitted Receivables Financing;

(q) investments, loans, advances, guarantees and acquisitions resulting from a foreclosure by Holdings, the Borrower or any Subsidiary with respect to any secured investment or other transfer of title with respect to any secured investment in default;

(r) investments, loans, advances, guarantees and acquisitions the consideration for which consists solely of shares of common stock of Holdings;

(s) the Acquisition;

(t) other investments in an aggregate amount not to exceed \$40,000,000 (or, after the Transition Date, \$100,000,000) at any time outstanding; and

(u) the creation by the Borrower of a limited liability company organized under the laws of a jurisdiction in the United States of America and the Borrower's contribution to the OnMOS Joint Venture through such limited liability company of (i) \$51 in exchange for a 51% interest therein and (ii) the assets and operations of the TMOS business of the Subsidiaries and Holdings; provided that promptly following the contribution of such assets and operations to the OnMOS Joint Venture contemplated by this clause (u), the Borrower shall deliver to the Administrative Agent copies of all definitive documentation regarding such investment, certified by a Financial Officer of the Borrower as complete and correct.

SECTION 6.05. Asset Sales. The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries to, sell, transfer, lease or otherwise dispose of any asset, including any Equity Interest owned by it, nor will the Borrower permit any of the Subsidiaries to issue any additional Equity Interest in such Subsidiary, except:

(a) sales of inventory, used or surplus equipment and Permitted Investments in the ordinary course of business, Restructuring Liquidation Sales and the periodic clearance of aged inventory;

(b) sales, transfers and dispositions to the Borrower or a Subsidiary, provided that any such sales, transfers or dispositions involving a Subsidiary that is not a Loan Party shall be made in compliance with Section 6.09;

(c) transfers and dispositions in connection with the SCG Restructuring, provided that the aggregate fair market value of all assets sold, transferred or otherwise disposed of in reliance on this clause (c) shall not exceed \$10,000,000;

(d) the Borrower may consummate the Facilities Transfer;

(e) sales, transfers and other dispositions of assets (other than Equity Interests in a Subsidiary, except for sales of Equity Interests in the OnMOS Joint Venture to the extent such sales do not result in the failure of the Borrower to comply with Section 6.17) that are not permitted by any other clause of this Section, provided that the aggregate fair market value of all assets sold, transferred or otherwise disposed of in reliance upon this clause (e) shall not exceed \$30,000,000 (or, after the Transition Date, \$50,000,000) during any fiscal year of the Borrower; and

(f) sales, transfers and other dispositions of assets listed on Schedule 6.05 hereto;

provided that (i) all sales, transfers, leases and other dispositions permitted hereby shall be made for fair value (other than those permitted by clause (b) above) and for consideration of at least 80% cash or cash equivalents (other than those permitted by

clause (b) and (f) above) and (ii) the fair value of all consideration (other than cash and cash equivalents) received in respect of dispositions permitted by clause (f) above does not exceed \$15,000,000.

SECTION 6.06. Sale and Leaseback Transactions. The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries to, enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred, except for any such sale of any fixed or capital assets that is made for cash consideration in an amount not less than the cost of such fixed or capital asset and is consummated within 180 days after the Borrower or such Subsidiary acquires or completes the construction of such fixed or capital asset.

SECTION 6.07. Hedging Agreements. The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries to, enter into any Hedging Agreement, other than (a) Hedging Agreements required by Section 5.14 and (b) Hedging Agreements entered into in the ordinary course of business to hedge or mitigate risks to which the Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities.

SECTION 6.08. Restricted Payments; Certain Payments of Indebtedness. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except that (i) Holdings may declare and pay dividends with respect to its capital stock payable solely in additional shares of its capital stock, (ii) Subsidiaries may declare and pay dividends ratably with respect to their capital stock, (iii) Holdings may make Restricted Payments, not exceeding \$2,000,000 during any fiscal year, pursuant to and in accordance with stock option plans or other benefit plans for directors, management or employees of Holdings, the Borrower and the Subsidiaries, including the redemption or purchase of capital stock of Holdings held by former directors, management or employees of Holdings, the Borrower or any Subsidiary following termination of their employment, (iv) the Borrower may pay dividends to Holdings at such times and in such amounts, not exceeding \$2,000,000 during any fiscal year, as shall be necessary to permit Holdings to discharge its permitted liabilities and (v) the Borrower and the Joint Venture Holding Companies may make Restricted Payments to Holdings at such times and in such amounts (but not prior to the fifth anniversary of the date of issuance of the Cumulative Preferred Stock) as shall be necessary to enable Holdings, after such fifth anniversary, to pay dividends in cash on such Cumulative Preferred Stock as and when declared and payable, provided that, at the time of each Restricted Payment made in reliance upon this clause (v) and after giving pro forma effect to such payment, the Leverage Ratio shall not exceed 1.50 to 1.00, (vi) Holdings, the Borrower and the Subsidiaries may make Restricted Payments as and to the extent contemplated by the Recapitalization Agreement and (vii) Holdings may make Restricted Payments on account of the purchase, redemption or repurchase of the Cumulative Preferred Stock with the net proceeds of a substantially concurrent IPO, provided that, after giving effect to such purchase,

redemption or repurchase, no Default or Event of Default shall have occurred and be continuing.

(b) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Indebtedness, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancelation or termination of any Indebtedness, except:

(i) payment of Indebtedness created under the Loan Documents;

(ii) payment of regularly scheduled interest and principal payments as and when due in respect of any Indebtedness, other than (A) payments in respect of the Subordinated Debt and the Junior Subordinated Note prohibited by the subordination provisions thereof, (B) principal payments in respect of the Junior Subordinated Note and (C) cash interest payments in respect of the Junior Subordinated Note unless, in the case of any such payment specified in this clause (C), at the time of such payment and after giving pro forma effect thereto the Leverage Ratio shall not exceed 1.50 to 1.00 and such payment is due and payable on or after the fifth anniversary of the date of issuance of the Junior Subordinated Note;

(iii) refinancings of Indebtedness to the extent permitted by Section 6.01;

(iv) payment of secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(v) payments on account of the redemption of the First Lien Notes or the Second Lien Notes or a combination thereof with not more than 25% of the aggregate net proceeds of one or more issuances of equity securities of Holdings, provided that (A) after giving effect to such redemption, no Default or Event of Default shall have occurred and be continuing, (B) not more than 35% of the original aggregate principal amount of the First Lien Notes or the Second Lien Notes is redeemed and (C) any such redemption shall be made within 90 days of such equity issuance and otherwise in compliance with the provisions of the First Lien Note Indenture or Second Lien Note Indenture, as applicable; and

(vi) payments in respect of any Permitted Receivables Facility.

SECTION 6.09. Transactions with Affiliates. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) transactions that are at prices and on terms and conditions not less favorable to the

Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) transactions between or among Holdings, the Borrower and the Subsidiary Loan Parties not involving any other Affiliate, (c) to pay management, consulting and advisory fees to TPG or its Affiliates pursuant to any financial advisory, financing, underwriting or placement agreement or in respect of other investment banking activities, including in connection with acquisitions or divestitures, in an aggregate amount not to exceed \$2,000,000 in any fiscal year, (d) payments of fees and expenses to TPG and its Affiliates in connection with the Transactions, (e) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by the board of directors of Holdings, (f) the grant of stock options or similar rights to officers, employees, consultants and directors of Holdings pursuant to plans approved by the board of directors of Holdings and the payment of amounts or the issuance of securities pursuant thereto, (g) loans or advances to employees in the ordinary course of business consistent with prudent business practice, but in any event not to exceed \$5,000,000 in the aggregate outstanding at any one time, (h) the Transition Agreements, (i) any Restricted Payment permitted by Section 6.08 and (j) any ancillary agreements entered into between Holdings, the Borrower or any Subsidiary and the OnMOS Joint Venture at any time that Holdings owns directly and indirectly less than 80% of the economic interest of the OnMOS Joint Venture; provided, however, that, prior to the Transition Date, all management fees payable to TPG or its Affiliates shall accrue and not be payable in cash, it being understood that any such fees may be paid by the issuance of common stock of or warrants in respect of common stock of Holdings and any other fees may be paid in cash.

SECTION 6.10. Restrictive Agreements. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of Holdings, the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by any Loan Document, Subordinated Debt Document, First Lien Document or Second Lien Document, (ii) the foregoing shall not apply to restrictions and conditions existing on the Effective Date identified on Schedule 6.10 (but shall apply to any extension or renewal of, or any amendment or modification if it expands the scope of, any such restriction or condition), (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness, (v) clause (a) of the foregoing shall not apply to customary provisions in leases restricting the assignment thereof and (vi) the foregoing

shall not apply to restrictions or conditions imposed on a Receivables Subsidiary in connection with a Permitted Receivables Financing.

SECTION 6.11. Amendment of Material Documents. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, amend, modify or waive any of its rights under (i) any Subordinated Debt Document, (ii) its certificate of incorporation, by-laws or other organizational documents (including the SMP JV Agreement and the Leshan JV Agreement), (iii) the Junior Subordinated Note, (iv) the Certificate of Designations, (v) except for amendments to the Second Lien Security Documents permitted by the Intercreditor Agreement, any Second Lien Document, or (vi) any First Lien Document; provided that any certificate of incorporation, by-law or other organizational documents described in clause (i) of this paragraph may be amended or modified (and any rights thereunder may be waived) in any respect that is not materially adverse to the interests of the Lenders.

(b) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, amend, modify or waive any of its rights under any Recapitalization Document or terminate any Transition Agreement, in each case to the extent that such amendment, modification, waiver or termination would be adverse to the Lenders.

(c) Holdings and the Borrower will not, and will not permit any Subsidiary to, amend, modify or waive any of its rights under any Permitted Receivables Financing to the extent that such amendment, modification or waiver would be materially adverse to the Lenders.

(d) The Borrower will not amend, modify or waive any of its rights under the IP License to the extent that such amendment, modification or waiver would (i) adversely affect the subordination of the rights of the Bermuda IP Subsidiary under the IP License to the Liens granted under the Security Agreement on the intellectual property covered by the IP License or (ii) otherwise be adverse to the Lenders in any material respect.

SECTION 6.12. [Intentionally Omitted].

SECTION 6.13. [Intentionally Omitted].

SECTION 6.14. Capital Expenditures. (a) The Borrower and Subsidiaries shall not incur or make any Capital Expenditures during any period set forth below (a "Measurement Period") in an amount exceeding the amount set forth opposite such period:

<u>Period</u>	<u>Maximum Capital Expenditures</u>
April 1, 2003 to December 31, 2003	\$ 87,500,000
January 1, 2004 to December 31, 2004	\$100,000,000
January 1, 2005 to December 31, 2005	\$100,000,000
January 1, 2006 to December 31, 2006	\$100,000,000
January 1, 2007 to August 4, 2007	\$100,000,000

(b) Notwithstanding the foregoing, the \$100,000,000 permitted amount in respect of any fiscal year ending after December 31, 2003 shall be increased by an amount equal to 50% of the amount (if any) by which Consolidated EBITDA for the immediately preceding fiscal year exceeds \$200,000,000.

(c) In addition, the amount of Capital Expenditures permitted to be made by the Borrower and Subsidiaries in respect of any fiscal year after December 31, 2003 shall be increased by (i) the unused amount (if any) of Capital Expenditures that were permitted to be made during the immediately preceding Measurement Period pursuant to Section 6.14(a) minus (ii) an amount equal to the unused permitted Capital Expenditures carried forward to such immediately preceding Measurement Period pursuant to this paragraph (c); provided that the increase in any fiscal year pursuant to this clause (c) shall not exceed 50% of the permitted Capital Expenditures amount for the immediately preceding Measurement Period pursuant to paragraphs (a) and (b).

For purposes of determining compliance with this Section, Capital Expenditures incurred or made by the OnMOS Joint Venture and its subsidiaries shall be disregarded.

SECTION 6.15. Minimum Consolidated EBITDA. The Borrower will not permit Consolidated EBITDA for any period of four consecutive fiscal quarters ending on any date after the Restatement Effective Date to be less than \$140,000,000.

SECTION 6.16. Minimum Cash and Cash Equivalents. Prior to the Transition Date, the Borrower will not permit the Liquidity Amount for any period of five consecutive Business Days ending on or after the date hereof (calculated at the close of business on each Business Day), to be less than \$50,000,000.

SECTION 6.17. OnMOS Joint Venture Interest. At all times after consummation of its investment in the OnMOS Joint Venture the Borrower shall own (directly or indirectly) at least 51% of the voting power represented by the outstanding Equity Interests of the OnMOS Joint Venture.

ARTICLE VII

Events of Default

SECTION 7.01. Events of Default. If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five days;

(c) any representation or warranty made or deemed made by or on behalf of Holdings, the Borrower or any Subsidiary in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or in any certificate or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) Holdings or the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.04 (with respect to the existence of Holdings or the Borrower) or 5.11 or in Article VI;

(e) any Loan Party shall fail to observe or perform any covenant, condition or agreement contained in any Loan Document (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) Holdings, the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable after giving effect to any applicable grace period with respect thereto;

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity, provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of Holdings, the Borrower or, subject to Section 7.02, any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Holdings, the Borrower or, subject to Section 7.02, any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) Holdings, the Borrower or, subject to Section 7.02, any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Holdings, the Borrower or, subject to Section 7.02, any Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) Holdings, the Borrower or, subject to Section 7.02, any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of \$10,000,000 (net of amounts covered by insurance as to which the insurer has admitted liability in writing) shall be rendered against Holdings, the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of Holdings, the Borrower or any Subsidiary to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in a Material Adverse Effect;

(m) any Lien purported to be created under any Security Document shall cease to be, or shall be asserted by any Loan Party not to be, a valid and perfected Lien on Collateral having, in the aggregate, a value in excess of \$5,000,000, with the priority required by the applicable Security Document, except (i) as a result of

the sale or other disposition of the applicable Collateral in a transaction permitted under the Loan Documents, (ii) any action taken by the Collateral Agent to release any such Lien in compliance with the provisions of this Agreement or any other Loan Document or (iii) as a result of the Collateral Agent's failure to maintain possession of any stock certificates, promissory notes or other instruments delivered to it under the Pledge Agreement;

(n) any default or other event shall have occurred under any document governing any Permitted Receivables Financing if the effect of such default or other event is to cause the termination of such Permitted Receivables Financing;

(o) a Change in Control shall occur; or

(p) the TPG Equity Purchase shall not have been consummated on or prior to September 7, 2001;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

SECTION 7.02. Exclusion of Immaterial Subsidiaries. Solely for the purposes of determining whether a Default has occurred under clause (h), (i) or (j) of Section 7.01, any reference in any such clause to any "Subsidiary" shall be deemed not to include any Subsidiary affected by any event or circumstance referred to in any such clause that did not, as of the last day of the fiscal quarter of the Borrower most recently ended, have assets with a value in excess of 5.0% of the total consolidated assets of the Borrower and the Subsidiaries as of such date, provided that if it is necessary to exclude more than one Subsidiary from clause (h), (i) or (j) of Section 7.01 pursuant to this Section in order to avoid a Default thereunder, all excluded Subsidiaries shall be considered to be a single consolidated Subsidiary for purposes of determining whether the condition specified above is satisfied.

ARTICLE VIII

The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with Holdings, the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to Holdings, the Borrower or any of the Subsidiaries that is communicated to or obtained by the Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02(b)) or in the absence of its own gross negligence or wilful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by Holdings, the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any of and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of each Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent that shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to Holdings or the Borrower, to it at 5005 East McDowell Road, Phoenix, Arizona 85018, Attention of President (Telecopy No. 602-244-4830);

(b) if to the Administrative Agent, to JPMorgan Chase Bank, Loan and Agency Services Group, 1111 Fannin, 10th Floor, Houston, TX 77002, Attention of Maryann T. Bui (Telecopy No. (713) 750-2358), with a copy to JPMorgan Chase Bank, 270 Park Avenue, New York, New York 10017, Attention of Edmond DeForest (Telecopy No. (212) 270-4584);

(c) if to the Issuing Bank, to JPMorgan Chase Bank, in care of JPMorgan Treasury Services, 10420 Highland Manor Drive, 4th Floor, Tampa, Florida 33610, Attention of Standby LC Department (Telecopy No. (813) 432-5161);

(d) if to the Swingline Lender, to JPMorgan Chase Bank, Loan and Agency Services Group, 1111 Fannin, 10th Floor, Houston, TX 77002, Attention of Maryann T. Bui (Telecopy No. (713) 750-2358); and

(e) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 9.02. Waivers; Amendments. (a) No failure or delay by the Administrative Agent, the Issuing Bank or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Loan Party therefrom shall in any event be effective

unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any other Loan Document nor any provision hereof or thereof may be waived, amended or modified except, in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by Holdings, the Borrower and the Required Lenders or, in the case of any other Loan Document, pursuant to an agreement or agreements in writing entered into by the Administrative Agent and the Loan Party or Loan Parties that are parties thereto, in each case with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the maturity of any Loan, or the date of any scheduled payment of the principal amount of any Tranche E Term Loan under Section 2.10, or the required date of reimbursement of any LC Disbursement, or any date for the payment of any interest or fees payable hereunder, or reduce the amount of, waive or excuse any such scheduled payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.18(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (v) change any of the provisions of this Section or the percentage set forth in the definition of the term "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders (or Lenders of any Class) required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Lender (or each Lender of such Class, as the case may be), (vi) release Holdings or any Subsidiary Loan Party from its Guarantee under the Guarantee Agreement (except as expressly provided in the Guarantee Agreement), or limit its liability in respect of such Guarantee, without the written consent of each Lender, (vii) except in strict accordance with the express provisions of the Security Documents, release all or any substantial part of the Collateral from the Liens of the Security Documents, without the written consent of each Lender, (viii) change any provisions of any Loan Document in a manner that by its terms adversely affects the rights in respect of payments due to Lenders holding Loans of any Class differently than those holding Loans of any other Class, without the written consent of Lenders holding a majority in interest of the outstanding Loans and unused Commitments of each affected Class or (ix) change the definition of "Interest Period" to include periods longer than six months; provided further that (A) no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Issuing Bank or the Swingline Lender without the prior written consent of the Administrative Agent, the Issuing Bank or the Swingline Lender, as the case may be, and (B) any waiver, amendment or modification of this Agreement that by its terms affects the rights or duties under this Agreement of the Revolving Lenders (but not the Tranche E Lenders) or the Tranche E Lenders (but not the

Revolving Lenders) may be effected by an agreement or agreements in writing entered into by Holdings, the Borrower and requisite percentage in interest of the affected Class of Lenders that would be required to consent thereto under this Section if such Class of Lenders were the only Class of Lenders hereunder at the time. Notwithstanding the foregoing, any provision of this Agreement may be amended by an agreement in writing entered into by Holdings, the Borrower, the Required Lenders and the Administrative Agent (and, if their rights or obligations are affected thereby, the Issuing Bank and the Swingline Lender) if (i) by the terms of such agreement the Commitment of each Lender not consenting to the amendment provided for therein shall terminate upon the effectiveness of such amendment and (ii) at the time such amendment becomes effective, each Lender not consenting thereto receives payment in full of the principal of and interest accrued on each Loan made by it and all other amounts owing to it or accrued for its account under this Agreement.

SECTION 9.03. Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of one counsel in each applicable jurisdiction for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Lender, including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Lender, in connection with the enforcement or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence, Release or threatened Release of Hazardous Materials on or from any Mortgaged Property or Restatement Mortgaged Property or any other property currently

or formerly owned or operated by Holdings, the Borrower or any of the Subsidiaries, or any Environmental Liability related in any way to Holdings, the Borrower or any of the Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto, provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses resulted from the gross negligence or wilful misconduct of such Indemnitee or any Related Person of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent, the Issuing Bank or the Swingline Lender under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the Issuing Bank or the Swingline Lender, as the case may be, such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the Issuing Bank or the Swingline Lender in its capacity as such. For purposes hereof, a Lender's "pro rata share" shall be determined based upon its share of the sum of the total Actual Revolving Exposures, outstanding Tranche E Term Loans and unused Commitments at the time.

(d) To the extent permitted by applicable law, neither Holdings nor the Borrower shall assert, and each hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly after written demand therefor.

(f) Neither Motorola nor any director, officer, employee, stockholder or member, as such, of any Loan Party or Motorola shall have any liability for the Obligations or for any claim based on, in respect of or by reason of the Obligations or their creation; provided that the foregoing shall not be construed to relieve any Loan Party of its Obligations under any Loan Document.

SECTION 9.04. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing

Bank that issues any Letter of Credit) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans at the time owing to it), provided that (i) except in the case of an assignment to a Lender or an Affiliate or Approved Fund of a Lender, each of the Borrower and the Administrative Agent (and, in the case of an assignment of all or a portion of a Revolving Commitment or any Lender's obligations in respect of its Actual LC Exposure or Swingline Exposure, the Issuing Bank and the Swingline Lender) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) except in the case of an assignment to a Lender or an Affiliate or Approved Fund of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitments or Loans, the amount of the Commitments or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$1,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, except that this clause (iii) shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of Commitments or Loans, (iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500, and (v) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire, and provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of Default under clause (a), (b), (g), (h), (i), (j), (n) or (o) of Article VII has occurred and is continuing. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement (provided that any liability of the Borrower to such assignee under Section 2.15, 2.16 or 2.17 shall be limited to the amount, if any, that would have been payable thereunder by the Borrower in the absence of such assignment), and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in The City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and Holdings, the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Lender may, without the consent of the Borrower, the Administrative Agent, the Issuing Bank or the Swingline Lender, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it), provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) Holdings, the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of the Loan Documents, provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (f) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with

respect to the participation sold to such Participant. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest, provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Loan Parties in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. This Agreement shall become effective as provided in the Amendment and Restatement Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the

invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Set-Off. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower then existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement. The rights of each Lender under this Section are in addition to other rights and remedies (including any other rights of set-off) that such Lender may have.

SECTION 9.09. GOVERNING LAW; JURISDICTION; CONSENT TO SERVICE OF PROCESS. (a) THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

(b) Each of Holdings and the Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against Holdings, the Borrower or its properties in the courts of any jurisdiction.

(c) Each of Holdings and the Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, or to any direct or indirect contractual counterparties in swap agreements or such contractual counterparties' professional advisors, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than Holdings or the Borrower. For the purposes of this Section, the term "Information" means all information received from Holdings or the Borrower relating to Holdings or the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by Holdings or the Borrower. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

SECTION 9.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts that are treated as interest on such Loan under applicable law (collectively the “Charges”), shall exceed the maximum lawful rate (the “Maximum Rate”) that may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.14. Existing Credit Agreement; Effectiveness of Amendment and Restatement. Until this Agreement becomes effective in accordance with the terms of the Amendment and Restatement Agreement, the Existing Credit Agreement shall remain in full force and effect and shall not be affected hereby. After the Restatement Effective Date, all obligations of the Borrower under the Existing Credit Agreement shall become obligations of the Borrower hereunder, secured by the Security Documents, and the provisions of the Existing Credit Agreement shall be superseded by the provisions hereof.

SECTION 9.15. [Intentionally Omitted]

SECTION 9.16. [Intentionally Omitted]

SECTION 9.17. Conversion of Currencies. (a) If, for the purpose of obtaining judgment in any court, it is necessary to convert a sum owing hereunder in one currency into another currency, each party hereto agrees, to the fullest extent that it may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures in the relevant jurisdiction the first currency could be purchased with such other currency on the Business Day immediately preceding the day on which final judgment is given.

(b) The obligations of the Borrower in respect of any sum due to any party hereto or any holder of the obligations owing hereunder (the “Applicable Creditor”) shall, notwithstanding any judgment in a currency (the “Judgment Currency”) other than the currency in which such sum is stated to be due hereunder (the “Agreement Currency”), be discharged only to the extent that, on the Business Day following receipt by the Applicable Creditor of any sum adjudged to be so due in the Judgment Currency, the Applicable Creditor may in accordance with normal banking procedures in the relevant jurisdiction purchase the Agreement Currency with the Judgment Currency; if the amount of the Agreement Currency so purchased is less than the sum originally due to the Applicable Creditor in the Agreement Currency, the Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Applicable Creditor against such loss. The obligations of the Borrower contained in this Section 9.17 shall survive the termination of this Agreement and the payment of all other amounts owing hereunder.

REAFFIRMATION AGREEMENT, dated as of November 25, 2003, among ON SEMICONDUCTOR CORPORATION (formerly known as SCG HOLDING CORPORATION) ("Holdings"), SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC (the "Borrower"), each subsidiary of Holdings listed on the signature pages hereof (collectively, the "Subsidiary Loan Parties" and, together with Holdings and the Borrower, the "Reaffirming Parties") and JPMORGAN CHASE BANK, as Administrative Agent, Issuing Bank and Collateral Agent (in such capacities, "JPMCB") for the benefit of the Lenders (such term and each other capitalized term used but not defined herein having the meaning assigned to such term in the Amended and Restated Credit Agreement referred to below).

WHEREAS Holdings, the Borrower, the lenders party thereto and the Administrative Agent have entered into an Amendment and Restatement Agreement dated as of November 25, 2003 (the "Amendment and Restatement Agreement"), which amends and restates the Credit Agreement dated as of August 4, 1999, as amended and restated as of September 17, 2003 (as amended and restated after giving effect to the Amendment and Restatement Agreement, the "Amended and Restated Credit Agreement");

WHEREAS each Reaffirming Party expects to realize, or has realized, substantial direct and indirect benefits as a result of Holdings and the Borrower entering into the Amendment and Restatement Agreement and as a result of the Amendment and Restatement Agreement becoming effective; and

WHEREAS the execution and delivery of this Agreement is a condition precedent to the effectiveness of the Amendment and Restatement Agreement.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

Reaffirmation/Amendment and Restatement

SECTION 1.01. Reaffirmation. (a) Each of the Reaffirming Parties hereby consents to the Amendment and Restatement Agreement and hereby confirms its respective guarantees, pledges and grants of security interests, as applicable, under each

of the Loan Documents to which it is a party, and agrees that notwithstanding the effectiveness of the Amendment and Restatement Agreement, such guarantees, pledges and grants of security interests shall continue to be in full force and effect and shall accrue to the benefit of the Lenders and the other Secured Parties under the Amended and Restated Credit Agreement.

(b) Each of the Reaffirming Parties hereby confirms and agrees that the Tranche E Term Loans and the Revolving Loans constitute Obligations under each of the Loan Documents.

SECTION 1.02. Amendment and Restatement. On and after the effectiveness of the Amendment and Restatement Agreement, (i) each reference in each Loan Document to the "Credit Agreement", "thereunder", "thereof" or words of like import shall mean and be a reference to the Amended and Restated Credit Agreement (as such agreement may be amended, modified or supplemented and in effect from time to time) and (ii) the definition of any term defined in any Loan Document by reference to the terms defined in the "Credit Agreement" shall be amended to be defined by reference to the defined term in the Amended and Restated Credit Agreement, as the same may be amended, modified or supplemented and in effect from time to time.

ARTICLE II

Representations and Warranties

Each Reaffirming Party hereby represents and warrants, which representations and warranties shall survive execution and delivery of this Agreement, as follows:

SECTION 2.01. Organization. Such Reaffirming Party is duly organized and validly existing in good standing under the laws of the jurisdiction of its formation.

SECTION 2.02. Authority; Enforceability. Such Reaffirming Party has the power and authority to execute, deliver and carry out the terms and provisions of this Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Agreement. Such Reaffirming Party has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 2.03. Loan Documents. The representations and warranties of such Reaffirming Party contained in each Loan Document are true and correct in all material respects on and as of the Restatement Effective Date with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

ARTICLE III

Miscellaneous

SECTION 3.01. Indemnity. Each Reaffirming Party shall indemnify JPMCB, each Lender and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any other agreement or instrument contemplated hereby, the performance by the parties hereto and thereto of their respective obligations hereunder and thereunder or the consummation of the transactions contemplated hereby and thereby, or (ii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses resulted from the gross negligence or wilful misconduct of such Indemnitee or any Affiliate of such Indemnitee (or any officer, director, employee, advisor or agent of such Indemnitee or any such Indemnitee's Affiliates).

SECTION 3.02. Set-Off, etc. In addition to, and without limitation of, any rights of JPMCB and the Lenders under applicable law, if an Event of Default shall have occurred and be continuing, JPMCB, each Lender and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of any Reaffirming Party against any of and all the obligations of any Reaffirming Party then existing under this Agreement or any other Loan Document held by JPMCB or such Lender, irrespective of whether or not JPMCB or such Lender shall have made any demand under this Agreement or such other Loan Document. The rights of JPMCB and each Lender under this Section 3.02 are in addition to other rights and remedies (including other rights of set-off) which JPMCB or such Lender may have.

SECTION 3.03. Notices. All notices and other communications hereunder shall be made at the addresses, in the manner and with the effect provided in Article IX of the Amended and Restated Credit Agreement; provided that, for this purpose, the address of each Reaffirming Party shall be the one specified for the Borrower under the Amended and Restated Credit Agreement.

SECTION 3.04. Limitation of Liability. To the extent permitted by applicable law, each Reaffirming Party shall not assert, and each hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out

of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the transactions contemplated hereby, any Loan or Letter of Credit or the use of the proceeds thereof.

SECTION 3.05. CHOICE OF LAW; CONSENT TO JURISDICTION. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK. EACH REAFFIRMING PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE OR, TO THE EXTENT PERMITTED BY LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT JPMCB OR ANY LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST ANY REAFFIRMING PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

SECTION 3.06. Loan Document. This Agreement is a Loan Document executed pursuant to the Amended and Restated Credit Agreement and shall (unless otherwise expressly indicated herein) be construed, administered and applied in accordance with the terms and provisions thereof.

SECTION 3.07. Section Captions. Section captions used in this Agreement are for convenience of reference only and shall not affect the construction of this Agreement.

SECTION 3.08. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 3.09. WAIVER OF JURY TRIAL. EACH OF THE REAFFIRMING PARTIES AND JPMCB BY ITS ACCEPTANCE HEREOF HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 3.10. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

SECTION 3.11. Amendment. This Agreement may be waived, modified or amended only by a written agreement executed by each of the parties hereto.

SECTION 3.12. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original but all of which shall together constitute one and the same agreement. Delivery of an executed counterpart of a signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 3.13. No Novation. After the Restatement Effective Date, all the obligations of the Borrower under the Existing Credit Agreement shall become obligations under the Amended and Restated Credit Agreement, secured by the Loan Documents as reaffirmed hereby. Neither this Agreement nor the execution, delivery or effectiveness of the Amendment and Restatement Agreement shall extinguish the obligations for the payment of money outstanding under the Amendment and Restatement Agreement or the Amended and Restated Credit Agreement or discharge or release the Lien or priority of any Security Document or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Existing Credit Agreement or the Amended and Restated Credit Agreement or instruments securing the same, which shall remain in full force and effect, except to any extent modified hereby or by instruments executed concurrently herewith. Nothing express or implied in this Agreement, the Amendment and Restatement Agreement, the Amended and Restated Credit Agreement or in any other document contemplated hereby or thereby shall be construed as a release or other discharge of Holdings, the Borrower or any Subsidiary Loan Party under any Loan Document from any of its obligations and liabilities as "Holdings", a "Borrower", a "Subsidiary Loan Party", a "Guarantor", a "Grantor", a "Pledgor", a "party to the Indemnity, Subrogation and Contribution Agreement" or a "party to the Collateral Assignment" under the Existing Credit Agreement or the Loan Documents. Each of the Existing Credit Agreement and the Loan Documents shall remain in full force and effect, until and except to any extent modified hereby or in connection herewith and therewith.

IN WITNESS WHEREOF, each Reaffirming Party and JPMCB have caused this Agreement to be duly executed and delivered as of the date first above written.

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

SCG INTERNATIONAL DEVELOPMENT LLC,

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SCG (MALAYSIA SMP) HOLDING CORPORATION,

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SCG (CZECH) HOLDING CORPORATION,

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SCG (CHINA) HOLDING CORPORATION,

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SEMICONDUCTOR COMPONENTS INDUSTRIES PUERTO
RICO, INC.,

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SEMICONDUCTOR COMPONENTS INDUSTRIES OF
RHODE ISLAND, INC.,

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

SEMICONDUCTOR COMPONENTS INDUSTRIES
INTERNATIONAL OF
RHODE ISLAND, INC.,

By: /s/ DONALD A. COLVIN

Name: Donald A. Colvin
Title: Senior Vice President and Chief
Financial Officer

By: /s/ EDMOND DEFOREST

Name: Edmond DeForest
Title: Vice President

LOAN AGREEMENT**Section 1 Parties**

The Parties to this Agreement are as follows:

- 1.1 China Construction Bank Sichuan Branch (“Lender”) Legal address: #86 Tidu Street, Chengdu, Sichuan Authoritative Representative: Zhao Fugao
- 1.2 Leshan-Phoenix Semiconductor Company LTD (“Borrower”) Legal Address: #27 West Renmin Street, Leshan, Sichuan Legal Representative: William Meder

Section 2 Definitions and Interpretation

Wherever used in this Agreement, unless the context otherwise requires, the following terms have the following meanings:

- 2.1 “This Agreement” means this Loan Agreement (Reference number: (2003) (01))
- 2.2 “Shareholders’ Loan Documents” means the loan agreement entered into by and between Borrower and SCI (as defined below) on or about April 1, 2001, as amended on or about August 1, 2002, and the related Promissory Note with an original principal amount of \$63,292,094.11 dated August 1, 2002 with a maturity date on December 31, 2004 executed by Borrower as borrower of funds from SCI.
- 2.3 “SCI” means Semiconductor Components Industries, LLC, a limited liability company formed and existing under the laws of Delaware, U.S.A., being the parent company of SCG which is a shareholder of Borrower.
- 2.4 “SCG” means SCG (China) Holding Corporation, a company incorporated and existing under the laws of Delaware, U.S.A., being a subsidiary of SCI and a shareholder of Borrower.
- 2.5 “Mortgaged Assets” means the fixed assets owned by Borrower and provided to Lender, as security for purposes of assuring the repayment of the Loan hereunder, as specifically listed in the Mortgage Agreement.
- 2.6 “Assets Evaluation Report” means the report on the evaluation of the Mortgaged Assets having been issued by Sichuan Xinde Assets Appraisal Company on November 24, 2003.

- 2.7 “Loan Documents” means this Agreement and the Schedules hereto.
- 2.8 “LIBOR” means the London inter-bank offering rate provided by the Telerate Service or any other services that display such rate and published by the British Bankers’ Association (BBA) on 11:00 AM (London time).
- 2.9 “Draw-down Date” means the date when the Loan hereunder is deposited into a bank account opened and maintained by Borrower at the Leshan Sub-Branch of China Construction Bank.
- 2.10 “Insurance Company” means the insurance company which issues the insurance policies for the Mortgaged Assets.
- 2.11 “Insurance Policy” means the insurance policy purchased by Borrower from the Insurance Company to cover the Mortgaged Assets.
- 2.12 “Insurance Proceeds” means the compensation paid by the Insurance Company in the event the occurrence of any insured risk regarding the Mortgaged Assets pursuant to the Insurance Policy.
- 2.13 “Third Party” means any party other than Lender and Borrower.
- 2.14 “ICBC Loan Documents” means the loan facility entered into on November 17, 2000 between Borrower and Industrial and Commercial Bank of China, Sichuan Branch, and related documents including the foreign exchange loan contract, Renminbi (“RMB”) loan contract and mortgage contract between the same parties entered into on or about November 17, 2000.
- 2.15 “Articles of Association” means the current Articles of Association of Borrower.
- 2.16 “Joint Venture Contract” means the current Joint Venture Contract of Borrower.
- 2.17 “Disbursement Notice” means a written notice sent by Lender, allowing Borrower to immediately draw the Loan hereunder.
- 2.18 “Business Day” means a working day which is not a national holiday day in China.
- 2.19 “Loan” means the total Forty Eight Million (\$48,000,000) US Dollars loan facility Borrower borrows from Lender hereunder, including the Tranche A, being Twenty Four Million (\$24,000,000) US Dollars and Tranche B, being Twenty Four Million (\$24,000,000) US Dollars.

Section 3 Background and Purposes

- 3.1 The Shareholders' Loan Documents reflect that as of August 1, 2002 Borrower owed \$63,292,094.11 to SCI with a maturity date on December 31, 2004.
- 3.2 From August 1, 2002 to the execution date of this Agreement, Borrower has made partial principal payments to SCI of US\$15,292,093 under the Shareholders' Loan Documents and Borrower currently owes SCI a remaining principal balance of approximately US\$48,000,001.11. Borrower intends to borrow from Lender the Loan to repay SCI the remaining principal balance owed under the Shareholders' Loan Documents less approximately US\$1.00.
- 3.3 For the purpose of specifying the rights and obligations between Borrower and Lender and promoting mutual benefits, Borrower and Lender have reached the following agreements according to the Contract Law of China and other related applicable laws and regulations.

Section 4 Currency, Amount and Usage of the Loan and Interest Payment

- 4.1 The currency of the Loan under this Agreement shall be US Dollars.
- 4.2 On the terms and subject to the conditions of this Agreement, Lender agrees to lend to Borrower:
 - (a) the Tranche A, being US\$24,000,000 (Twenty Four Million US Dollars); and
 - (b) the Tranche B, being US\$24,000,000 (Twenty Four Million US Dollars).Except for the Loan set forth above, Lender has no obligation to grant additional loans or make any other financial support to Borrower.
- 4.3 The proceeds of the Loan shall be drawn-down in one lump sum. Borrower shall notify Lender of the Draw-down Date immediately after its receipt of the Notice of Disbursement from Lender after the Pre-conditions to Disbursement set forth in Section 6 have been fulfilled.
- 4.4 The Loan under this Agreement shall only be used to repay the debt under the Shareholders' Loan Documents described in Section 3.2.

- 4.5 Borrower shall pay interest on the Loan in accordance with the following provisions:
- 4.5.1 Interest on the Loan shall accrue from day to day, being prorated on the basis of a 360-day year for the actual number of days in the relevant interest period. The interest for the Loan shall be calculated and paid on a quarterly basis, and each interest period shall include the first day within such interest period but exclude the last day of that interest period.
 - 4.5.2 The interest rate for the Loan shall be, for each interest calculation period, six (6) month LIBOR published on the 20th day of the last month in the previous quarter plus 150 BPs per annum, being 6 Months LIBOR plus 1.5%.
 - 4.5.3 Subject to Section 4.5.4, the interest payment dates shall be the 20th day of the last month within each quarter.
 - 4.5.4 The first interest payment date hereunder shall be the 20th day of the last month within the quarter on which the Draw-down Date falls, and the last interest payment date shall be the date when the Loan is completely paid off.
- 4.6 Disbursement of the Loan hereunder, and all payments of principal, interest, and any other fees due to Lender under this Agreement shall be made through China Construction Bank, Leshan Sub-branch.
- 4.7 If Borrower wishes to adjust the foregoing floating interest rate into a fixed interest rate, Borrower shall apply to Lender for implementing such adjustment.

Section 5 Representations and Warranties

- 5.1 Borrower represents and warrants that:
- 5.1.1 It is a company duly incorporated and validly existing under the laws of China and has the corporate power to sue or defend a case in court, and to enter into, observe and perform its obligations under this Agreement.
 - 5.1.2 As of the date when this Agreement is executed, it is not a party to any litigation, arbitration or administrative proceedings the outcome of which will reasonably be expected to have a material adverse effect on performance of its obligations under this Agreement.

- 5.1.3 It is not a party to or bound by any loan contract with any other financial institution or any Third Party except for the Shareholders' Loan Documents and the ICBC Loan Documents.
 - 5.1.4 Its fixed assets are not subject to any security interest, including, without limitation, mortgage, pledge, deposit, and lease, except for these security interests arising out of the ICBC Loan Documents.
 - 5.1.5 All information and materials provided by Borrower to Lender relating to the execution and performance of this Agreement is complete, true and up-to date in all material aspects.
 - 5.1.6 No present contract entered into by Borrower with any Third Party has a material adverse effect on Borrower's ability to perform its obligations under this Agreement.
 - 5.1.7 Neither the execution nor performance of this Agreement violates any term or provision of the Joint Venture Contract or Articles of Association or any internal regulations of Borrower.
 - 5.1.8 It is not in violation of any law, regulation or ruling, and no judgment or order or similar punishment has been issued which has or is likely to have any materially adverse effect on Borrower's business prospects or financial condition or make it improbable for Borrower to observe or perform its obligations under this Agreement.
- 5.2 If any of the foregoing representations and warranties is proved untrue or misstated in a material way, Borrower shall be deemed in default and shall be liable to Lender therefor.

Section 6 Pre-conditions to Disbursement

- 6.1 Within Three (3) Business Days of receiving the following documents Lender shall issue the Disbursement Notice to Borrower to notice Borrower that Borrower may draw down the Loan the following day, unless the documents provided by Borrower do not comply with the applicable laws and regulations and the provisions agreed to herein;
- 6.1.1 a copy of Borrower's valid business license, Joint Venture Contract and Articles of Association;
 - 6.1.2 the Loan Documents duly signed by Borrower and Lender;
 - 6.1.3 an Assets Evaluation Report;

- 6.1.4 mortgage registration certificates properly evidencing the registration of the mortgage over the Mortgaged Assets;
- 6.1.5 a copy of the Insurance Policy (including, evidence of payment of the premium) Borrower purchased hereunder, under which Lender is the primary beneficiary for the Mortgaged Assets and the Commitment Letter among Lender, Borrower and the Insurance Company to such effect.
- 6.1.6 documents indicating that Borrower has, pursuant to this Agreement, opened a foreign currency account and its basic Renminbi settlement account with Lender;
- 6.1.7 a board resolution of Borrower authorizing the execution and performance of this Agreement;
- 6.1.8 a letter of comfort from SCI indicating that SCI will continuously support Borrower's development;
- 6.1.9 a copy of the approval from the State Administration of Foreign Exchange, Sichuan Branch with respect to the remittance of the proceeds of the Loan overseas for the purpose thereof as provided herein.

Section 7 Terms and Repayment of the Loan

- 7.1 The term of the Loan hereunder shall be:
 - 7.1.1 The term of the Tranche A loan under this Agreement shall be ten (10) years, starting from the Draw-down Date.
 - 7.1.2 The term of the Tranche B loan under this Agreement shall be three (3) years, starting from the Draw-down Date.
 - 7.1.3 Before the Tranche B loan hereunder becomes due, Borrower may apply for an extension of the term thereof. If, after its examination, it is satisfied with Borrower's financial condition, Lender will enter into a supplementary agreement with Borrower permitting extension of the Tranche B loan, which shall provide that Borrower shall repay the principal of the Tranche B loan over three (3) years in equal installments on a quarterly basis with all other terms and conditions hereunder remaining the same.

7.1.4 Borrower shall provide to Lender a thirty (30) Business Days' notice for any extension of the Tranche B loan term prior to its maturity date, if Borrower intends to apply for extension of the Tranche B loan. Lender shall inform Borrower of its consent or denial in writing within twenty (20) Business Days after receiving such notice for extension from Borrower.

7.2 Repayment of Principal

7.2.1 Repayment of the principal of the Tranche A loan shall be made in accordance with the Schedule of Principal Repayment attached hereto as Schedule 1.

7.2.2 Subject to Section 7.1.3 above and Section 7.3 below, the principal of the Tranche B loan shall become due and be paid in a lump sum payment on or before its maturity date.

7.3 Prepayment

7.3.1 Notwithstanding Section 7.2 above, Borrower shall have the right, but not the obligation, to prepay all or any part of the principal of the Loan upon a thirty (30) Business Days' notice to Lender, which shall specify the amount and date regarding the prepayment as well as which Tranche the prepayment amount is to be applied to. For a partial prepayment, such prepayment shall be in an amount not less than US\$1,200,000.

7.3.2 Total or partial prepayment of the Loan is not subject to any prepayment fee, penalty or additional interest to Lender. Borrower undertakes not to prepay the Loan within One (1) year of the Draw-down Date. Any principal amount of the Loan prepaid under this Agreement may be re-borrowed at the discretion of Lender.

7.3.3 Notwithstanding Section 7.2 above, Borrower shall have the discretion to decide to which Tranche loan the amounts prepaid under this Section is to be applied to. Borrower shall specify in writing to which Tranche loan the prepayment amount is to be applied.

7.3.4 Any amount prepaid to the Tranche A loan shall be applied to the outstanding principal of the Tranche A loan in the chronological order of maturity thereof as set forth in the Schedule of Principal Repayment.

7.3.5 If Borrower notifies Lender of its intent to prepay any amount of the principal of the Loan, it shall make such prepayment as notified to

Lender. Lender shall be entitled to a fee equal to 2% of the amount of the Loan to be prepaid if Borrower fails to make such prepayment.

Section 8 Default Interest

8.1 Lender shall serve Borrower a notice five (5) Business Days in advance before any payment of the principal or interest of the Loan becomes due (including all or partial principal and interest which are declared due and payable by Lender upon prematuring by acceleration). If Borrower fails to make such payment on the due date, Borrower shall pay, in respect of the amount of such payment due and unpaid, an annual interest at the rate of 150 BPs plus the original interest rate, in effect from the due date of such payment until the date of actual payment. Such default interest shall be payable on each interest payment date in each quarter following such failure of payment.

Section 9 Particular Covenants

9.1 Borrower makes the following particular covenants:

9.1.1 Affirmative Covenants: Borrower shall actively perform the following obligations:

- (1) Borrower shall open all bank accounts necessary for its business with Lender except that it may maintains a RMB settlement account, a foreign currency settlement account, and for the purposes of the loan under ICBC Loan Documents, a principal and interest payment account with the Industrial and Commercial Bank of China, Leshan Branch;
- (2) Borrower shall use the Loan hereunder according to the provisions hereunder and not for any other purpose;
- (3) Upon a reasonable notice from Lender, Borrower shall permit representatives of Lender to visit any of the premises where the business of Borrower is conducted, without interruption to the business of Borrower, so as to obtain information about Borrower's business and financial condition;
- (4) Borrower shall promptly notify Lender in writing as soon as it becomes a party to any litigation, arbitration or administrative proceedings, with a claim against Borrower for more than RMB 2.0 million. Such notice shall describe the nature of such proceedings;

- (5) Borrower shall provide Lender with other means of security acceptable to Lender in the event that the Mortgaged Assets are damaged or destroyed by any uninsured act of Borrower under the Insurance Policy;
- (6) Borrower shall promptly notify Lender if (i) Borrower ceases its operation, (ii) Borrower's registration or business license is cancelled, (iii) its legal representative or a senior management member commits illegal activities, or (iv) its operation confronts serious difficulties and its financial condition becomes worsen, provided that such event or condition has or may reasonably be expected to have a material adverse effect on Borrower's ability to perform its obligations hereunder.
- (7) Borrower shall actively enhance business cooperation with Lender in all fields;
- (8) The ratio between the RMB and foreign currency settlements carried out by Borrower with Lender and such settlements with all banks shall not be lower than that of the ratio between the Loan and all loans of the Borrower with all banks. Lender shall, however, charge Borrower fees at preferential rates based on China Construction Bank headquarters' standard rates which comply with regulations of People's Bank of China
- (9) Capital and debt management and use of financial derivatives by Borrower shall be carried out through Lender, as long as Lender charges reasonable fees;
- (10) At the end of each month, the average period of the account receivables arising out of sales of Borrower's products to SCI and its affiliated companies shall not exceed thirty (30) days;
- (11) Borrower shall conduct its business in accordance with laws and regulations of China and normal business practice;
- (12) Borrower shall, within Fifteen (15) of the end of each month, deliver to Lender copies of its complete financial statements for the such month and copies of its annul audited financial statements by an internationally recognized auditing firm within Five (5) Business Days of its receipt thereof but no later than the last day of the month of May; and

- (13) Borrower shall promptly provide to Lender such necessary information as Lender may from time to time request from Borrower about Borrower's business operation and the status of the Mortgaged Assets.

9.1.2 Negative Covenants. Borrower shall not take the following acts without the prior written consent of Lender, which consent shall not be unreasonably withheld; Lender shall provide its decision of consent or disagreement (with proper explanation) in writing within ten (10) days of Borrower's written notice of its intent to take such acts:

- (1) change the business scope as set forth in its business license;
- (2) revise the Joint Venture Contract or Articles of Association in any manner which would be inconsistent with the provisions of this Agreement;
- (3) change the pricing principles of its products as currently adopted by Borrower;
- (4) borrow any new loan from any Third Party after the Draw-down Date which will cause Borrower to owe an outstanding debt as a result of such loan exceeding US\$4.8 million. However, any borrowings from SCI, SCG or any of their parent, subsidiary or other affiliates overseas and any borrowings to be used for the purchases of equipment and development of additional facilities for the Wafer Fab project are hereby excepted and excluded from such prior approval by Lender. Borrower should give Lender the priority right for borrowings for such purchases and development.
- (5) pay any dividends to its shareholders before all amounts owing to Lender, for the same quarter in which the dividends will be paid, have been paid in full;
- (6) create or permit to exist any security interest in favor of any Third Party over the Mortgaged Assets;
- (7) enter into any agreement or similar arrangement to guarantee all or any part of any financial or other obligation of any Third Party;
- (8) undertake or permit any merger, division or reorganization;

- (9) sell, transfer, give away as gift or otherwise dispose of any Mortgaged Assets; and
- (10) file a bankruptcy application in court.

Section 10 Mortgage

- 10.1 To ensure that Borrower is capable of repaying the principal and paying the interest provided in this Agreement, Borrower agrees to grant Lender a mortgage on the fixed assets set forth in the List of Mortgaged Assets which is an Annex of the Mortgage Agreement attached hereto as Schedule 2.
- 10.2 The value of the Mortgaged Assets shall be determined pursuant to the Assets Evaluation Report.
- 10.3 Within ten (10) Business Days after this Agreement becomes effective, Borrower shall deliver to relevant authoritative agency where the Mortgaged Assets are located documents necessary for registration of the mortgage
- 10.4 Specified provisions regarding the mortgage are set forth in the Mortgage Agreement attached hereto as Schedule 2.
- 10.5 As Borrower duly makes payment of principal and interests, Lender will, when requested by Borrower in writing, release such quantity of the unreleased Mortgaged Assets, not more frequently than once every six (6) months, for a value corresponding to the amount of the Loan having been paid by then. Upon any prepayment by Borrower of the principal of the Loan amounting to Two Million and Four Hundred Thousand US Dollars (US\$2,400,000) or more, however, Lender shall promptly release the Mortgaged Assets proportionate to the amount of the prepaid Loan.

Section 11 Insurance

- 11.1 Borrower shall insure the Mortgaged Assets and always keep them insured with the Insurance Company recognized by Lender and name Lender as the primary beneficiary of the Insurance Policy therefor.
- 11.2 While Lender's security interests in the Mortgaged Assets duly exist, Borrower shall punctually pay any premium and fulfill any obligations necessary for effecting and maintaining in force the Insurance Policy and deliver to Lender copies of the relevant insurance documents evidencing continuous insurance over the Mortgaged Assets during the term of the Loan.

- 11.3 Any Insurance Proceeds paid by the Insurance Company to Lender not exceeding RMB 4.0 million shall be returned by Lender to Borrower upon its receipt thereof from the Insurance Company. The use of any Insurance Proceeds exceeding such amount shall be determined through discussion between Borrower and Lender.
- 11.4 Borrower shall comply with the provisions of the Insurance Policy and shall not vary or cause a material change to the Insurance Policy unless it obtains Lender's prior written consent, which shall not be unreasonably withheld.
- 11.5 Borrower shall notify Lender of the following events:
 - 11.5.1 occurring of any insured risk;
 - 11.5.2 changes of the Insurance Contract, including, without limitation, changes of the coverage of risks insured, and the amounts of the coverage, the assets insured and other terms of the Insurance Contract.
 - 11.5.3 change of the Insurance Company;

Section 12 Fees

- 12.1 Borrower shall bear and pay the following fees incurred related to the execution of this Agreement:
 - 12.1.1 fees incurred for evaluation of the Mortgaged Assets;
 - 12.1.2 fees incurred for registration of the Mortgaged Assets;
 - 12.1.3 relevant legal fees;
 - 12.1.4 notarization fees, and
 - 12.1.5 stamp duty Borrower is required to pay under relevant laws.

In the event where Lender pays a fee on Borrower's behalf which Borrower is required to pay herein, Lender will provide official receipts and other documents as Borrower may request showing such payment for reimbursement by Borrower
- 12.2 Borrower shall be liable to Lender for a total penalty of only an amount equal to 1% of that part of the Loan which has not been drawn down within twenty (20) Business Days after the date of the issuance of the Disbursement Notice. Lender shall waive such penalty, however, if Borrower draws down such part

of the Loan within Forty (40) Business Days of the date of the issuance of the Disbursement Notice, and Borrower shall, instead, only be liable for the interest as specified in Section 4.5.1 and Section 4.5.2 for the days of such delay. After such Forty (40) days, Lender shall be discharged of its obligation to allow Borrower to draw down such part of the Loan not drawn down by Borrower.

12.3 Except otherwise provided herein, Lender shall not charge Borrower any other fees.

Section 13 Events of Default

13.1 It shall be an event of Borrower's default if:

13.1.1 Borrower fails to pay any part of the principal of the Loan hereunder or any interest on the Loan when due hereunder;

13.1.2 Borrower fails to observe or perform any of its covenants made in Section 9 of this Agreement, except for Section 9.1.1(7)-(13).

13.1.3 any representation or warranty made in Section 5 of this Agreement is found to be materially incorrect;

13.1.4 Borrower institutes proceedings in a court seeking to be adjudicated bankrupt or insolvent;

13.1.5. A final and enforceable judgment or arbitration award is rendered by a court or arbitration tribunal with competent jurisdiction under which Borrower is held liable for an amount exceeding Five Million US dollars (US\$5.0 million) and the discharge of which will have a material effect on Borrower's ability to perform its obligations of this Agreement; and

13.1.6 Borrower fails to pay any premium or renew the Insurance Policy as required in Section 11.2 of this Agreement.

Notwithstanding the above, it shall only be an event of default with respect to any of the above listed events, if after written notice of the event from Lender, the event continues uncured for a period of thirty (30) days from the date of the receipt of the notice by Borrower. During this 30-day period, Lender may cease to make disbursement of the Loan hereunder.

13.2 If any event of default mentioned above occurs, Lender may:

13.2.1 declare all outstanding principal of the Loan due and payable immediately and require Borrower to repay such amount of the Loan hereunder and all interest having accrued thereon.

13.2.2 if an event of default provided for in 13.1.1 and 13.1.4 occur and Borrower fails to pay off the outstanding amount of the Loan due and payable pursuant to Section 13.2.1 within ninety (90) days of the declaration under Section 13.2.1, Lender is entitled to sell the Mortgaged Assets to repay the Loan hereunder, withholding an equal amount deposited in accounts maintained by Borrower at Lender through proper action in court.

13.2.3 If, after this Agreement becomes effective and all the Pre-conditions specified in Section 6 hereunder have been fulfilled including the receipt of the Disbursement Notice, Borrower does not borrow the Loan, Borrower shall pay to Lender liquidated damages in an amount equal to 1% of the total principal of the Loan hereunder.

13.3 It shall be a Lender's default:

13.3.1 If, after this Agreement becomes effective and all the pre-conditions specified in Section 6 hereunder have been fulfilled including the delivery of the Disbursement Notice, Lender fails to make disbursement of the Loan hereunder to Borrower, Lender shall pay to Borrower liquidated damages in an amount equal to 1% of the total principal of the Loan hereunder.

Section 14 Miscellaneous

14.1 Borrower and Lender agree to maintain the confidentiality of the Information (as defined below), except that such may be disclosed (a) to its and its affiliates, directors, officers, employees and agents, including accountants, legal counsel and other advisors who need to know the same, (b) to the extent requested and/or required by any regulatory authority, applicable laws or regulations or by any subpoena, suit or similar legal process, (c) with the prior consent of the other party or (d) to the extent the Information becomes publicly available or non-confidential. For the purposes of this Section, the term "Information" means the contents of the Loan Documents, and all information received from Borrower relating to Borrower or its businesses (other than any such information that is available to Lender on a non-confidential basis).

- 14.2 This Agreement shall remain effective from the date when it becomes effective until the date when Borrower has repaid in full the Loan hereunder and interest accrued on it.
- 14.3 Any Schedule to this Agreement is an integral part of this Agreement and shall have the same force as this Agreement does. However, any termination, rescinding or change of any Loan Documents other than this Agreement shall not affect the validity or force of this Agreement.
- 14.4 The Schedules of this Agreement include: (1) the Schedule of Principal Repayment; (2) the Mortgage Agreement;
- 14.5 Any amendment to any provision of this Agreement and/or other Loan Documents shall not be effective or valid unless Borrower and Lender agree in writing.
- 14.6 Without prior written consent of Lender, Borrower shall not assign any of its rights or obligations hereunder, in whole or in part, to any Third Party.
- 14.7 This Agreement shall become effective when duly signed by the legal or duly authorized representatives of both Lender and Borrower and sealed by the parties hereto
- 14.8 Any dispute arising out of or relating to the execution or performance of this Agreement shall first be resolved through negotiations between Borrower and Lender. If the negotiations fail to reach a resolution, either party may bring a legal action in the court with proper jurisdiction in the venue where Lender is located.
- 14.9 This Agreement constitutes the whole agreement between Borrower and Lender concerning the Loan transaction hereunder and shall replace any other oral or written agreements or understandings reached between the parties through discussions before this Agreement is executed.
- 14.10 All communications to be given or made under this Agreement shall be in writing. Such communications shall be made to the party's address specified below.
- 14.10.1 If to Lender:
Attention: Mr. Dai Hulin
Address: #86 Tidu Street, Chengdu, Sichuan
Post code:
Telephone:
Fax:

14.10.2 If to Borrower:
Attention: Zhang Jing
Address: #27 West Renmin Street, Leshan, Sichuan
Post code:
Telephone:
Fax:

14.11 This Agreement shall be executed in both English and Chinese; both versions shall be equally authentic and shall have the same legal effect. If there is any discrepancy between the two (2) versions, the Chinese version shall control.

14.12 This Agreement is executed in ten (10) originals in the English language and ten (10) originals in the Chinese language, and each party shall retain two (2) originals of each language.

14.13 This Agreement, the rights and obligations of Lender and Borrower hereunder and any claim or dispute relating thereto, shall be governed by and construed in accordance with the laws of the People's Republic of China.

14.14 This Agreement is executed on December 12, 2003 in Chengdu, Sichuan Province.

Lender: China Construction Bank, Sichuan Branch (Seal)

Authorized Representative: /S/ WU MINHAO
Wu Minhao

Borrower: Leshan-Phoenix Semiconductor Company LTD (Seal)

Legal (or duly authorized) Representative: /S/ H. F. LEE
H. F. Lee

Schedule of Principle Repayment (Tranche A)

Currency: USD

Scheduled time	Date	Reimbursed principle	Principle balance
1	3/20/2004	1,200,000.00	22,800,000.00
2	6/20/2004	1,200,000.00	21,600,000.00
3	9/20/2004	1,200,000.00	20,400,000.00
4	12/20/2004	1,200,000.00	19,200,000.00
5	3/20/2005	1,200,000.00	18,000,000.00
6	6/20/2005	1,200,000.00	16,800,000.00
7	9/20/2005	1,200,000.00	15,600,000.00
8	12/20/2005	1,200,000.00	14,400,000.00
9	3/20/2006	1,200,000.00	13,200,000.00
10	6/20/2006	1,200,000.00	12,000,000.00
11	9/20/2006	1,200,000.00	10,800,000.00
12	12/20/2006	1,200,000.00	9,600,000.00
13	3/20/2007	342,857.00	9,257,143.00
14	6/20/2007	342,857.00	8,914,286.00
15	9/20/2007	342,857.00	8,571,429.00
16	12/20/2007	342,857.00	8,228,572.00
17	3/20/2008	342,857.00	7,885,715.00
18	6/20/2008	342,857.00	7,542,858.00
19	9/20/2008	342,857.00	7,200,001.00
20	12/20/2008	342,857.00	6,857,144.00
21	3/20/2009	342,857.00	6,514,287.00
22	6/20/2009	342,857.00	6,171,430.00
23	9/20/2009	342,857.00	5,828,573.00
24	12/20/2009	342,857.00	5,485,716.00
25	3/20/2010	342,857.00	5,142,859.00
26	6/20/2010	342,857.00	4,800,002.00
27	9/20/2010	342,857.00	4,457,145.00
28	12/20/2010	342,857.00	4,114,288.00
29	3/20/2011	342,857.00	3,771,431.00
30	6/20/2011	342,857.00	3,428,574.00
31	9/20/2011	342,857.00	3,085,717.00
32	12/20/2011	342,857.00	2,742,860.00
33	3/20/2012	342,857.00	2,400,003.00
34	6/20/2012	342,857.00	2,057,146.00
35	9/20/2012	342,857.00	1,714,289.00
36	12/20/2012	342,857.00	1,371,432.00
37	3/20/2013	342,857.00	1,028,575.00
38	6/20/2013	342,857.00	685,718.00
39	9/20/2013	342,857.00	342,861.00
40	12/20/2013	342,861.00	0.00

Mortgage Agreement

Between
China Construction Bank, Sichuan Branch
and
Leshan-Phoenix Semiconductor Company Ltd.

Article 1 Parties to this Agreement

The Parties to this Agreement are as follows:

- 1.1 **China Construction Bank, Sichuan Branch** (hereinafter referred to as Mortgagee)
Legal address: Tidu Street 86#, Chengdu, Sichuan Province
Legal representative: Zhao Fugao
- 1.2 **Leshan-Phoenix Semiconductor Company Ltd.** (hereinafter referred to as Mortgagor)
Legal address: Renmin West Road 27, Leshan, Sichuan Province
Legal representative: William Meder

Article 2 Definitions and Interpretations

Unless otherwise specified herein, terms used in this Mortgage Agreement shall have the same meaning as assigned to them in the Loan Agreement:

- 2.1 **This Agreement** refers to this **Mortgage Agreement (File number: (2003) (01) 1) (translated from Mandarin “2003 01-1”)**.
- 2.2 **Loan Agreement** refers to the Loan Agreement (File number: **(2003) (01) (translated from Mandarin “2003 01”)**) executed by and between Mortgagee and Mortgagor on December 12, 2003.
- 2.3 **Third Party** refers to any party other than Mortgagee and Mortgagor.

Article 3 Background and Purpose of this Agreement

- 3.1 Mortgagor and Mortgagee entered into the Loan Agreement of even date hereof for purposes of extending the Loan by Mortgagee to Mortgagor thereunder.
- 3.2 In order to endure that Mortgagor shall repay to Mortgagee the principal and interest pursuant to the terms and conditions of the Loan Agreement, Mortgagor is willing to mortgage the Mortgaged Assets to Mortgagee as security for repayment of principal and interest of the Loan.
- 3.3 Pursuant to Section 10.4 of the Loan Agreement and in accordance with the Contract Law of the People's Republic of China, the Guarantee Law of the People's Republic of China and the provisions of other relevant laws and regulations, the Parties have concluded this Agreement upon the basis of friendly negotiations.

Article 4 Mortgaged Assets

- 4.1 The Mortgaged Assets mortgaged under this Agreement shall be the assets as listed in the Checklist of the Mortgaged Assets (as Annex 1 to this Agreement). The value of the Mortgaged Assets is to be determined by the Assets Evaluation Report (Annex 2 to this Agreement).
- 4.2 The mortgage registration certificates for the Mortgaged Assets shall be those mortgage registration certificates as issued by the competent governmental department(s) with which the Mortgaged Assets are registered pursuant to the Article 12 of this Agreement.
- 4.3 In case where changes have occurred in relation to the contents of the mortgage registration certificates, such changes shall have to be confirmed in writing by Mortgagor and Mortgagee and such written confirmations shall be regarded as an annex to this Agreement.

Article 5 Coverage of Mortgage

- 5.1 The secured amount covered by the mortgage under this Agreement shall be Forty Eight Million US Dollars (US\$48,000,000) as the principal under the Loan Agreement, its interest (including the default interest as specified in Section 8.1 of the Loan Agreement) and any expense incurred by Mortgagee in realizing the rights of Mortgagee in the Mortgaged Assets.

- 5.2 As Mortgagor duly makes payment of principal and interests, Mortgagee will, when requested by Mortgagor in writing, release such quantity of the Mortgaged Assets, not more frequently than once every six (6) months, for a value corresponding to the amount of the Loan having been paid by then. Upon any prepayment by Mortgagor of the principal of the Loan amounting to no less than Two Million and Four Hundred Thousand US Dollars (US\$2,400,000), however, Mortgagee shall promptly release the Mortgaged Assets proportionate to the amount of the prepaid Loan.

Article 6 Representations and Warranties

- 6.1 Mortgagor hereby represents and warrants as follows:
- 6.1.1 Mortgagor has legal title to and ownership of the Mortgaged Assets;
 - 6.1.2 The Mortgaged Assets are not under any pending disputes or, subject to any attachment or detainment;
 - 6.1.3 Mortgagor shall not sell, transfer, giving away as gift or otherwise dispose of the Mortgaged Assets without the prior written consent of Mortgagee, which consent shall not be unreasonably withheld; Mortgagee shall provide its decision of consent or disagreement (with proper explanation) in writing within ten (10) days of Mortgagor's written notice of its intent to take such acts;
 - 6.1.4 In case where Mortgagor has entered into a transaction with a Third Party for the lease of the Mortgaged Assets, Mortgagor shall, within five (5) Business Days of the execution of the lease agreement or other similar document(s), provide Mortgagee with a copy of such lease agreement or other similar documents. Mortgagee shall keep the documents and the information therein confidential;
 - 6.1.5 Within the valid term of this Agreement, Mortgagor shall not mortgage the Mortgaged Assets to any Third Party without the prior written consent of Mortgagee;
 - 6.1.6 Within the valid term of this Agreement Mortgagor shall not intentionally relocate, hide or cause damage to the Mortgaged Assets;

- 6.1.7 The information as disclosed by Mortgagor to Mortgagee with regard to the status and conditions of the Mortgaged Assets is complete and accurate in all material respects;
- 6.1.8 Within ten (10) Business Days after the Loan Agreement has become effective, Mortgagor shall submit all the documents to the recording department for registration of the mortgage;
- 6.1.9 If, following the fulfillment of the governmental formalities as described in Article 6.1.8 and Article 12.1 of this Agreement, the governmental bodies require that the mortgage registration in relation to the Mortgaged Assets be renewed, Mortgagor shall go through such renewal formalities in order that the registration of the mortgage under this Agreement shall always remain in effect. After the renewal formalities are fulfilled, Mortgagor shall furnish Mortgagee with a copy of the relevant documents evidencing the fulfillment of such formalities;
- 6.2 Mortgagee hereby represents and warrants that in the event it assigns its rights as a creditor during the valid term of this Agreement, Mortgagee shall notify Mortgagor in writing promptly.

Article 7 Exercise of Rights over Mortgage

- 7.1 Should the event under Section 13.1.1 of the Loan Agreement occur and after notice from Mortgagee and the lapsing of the cure period as set forth in Section 13.1 of the Loan Agreement, Mortgagee shall have the right to dispose of the Mortgaged Assets to realize the right under the Loan Agreement pursuant to the provisions of Section 13.2 under the Loan Agreement:

Article 8 Term of the Mortgage

- 8.1 The mortgage under this Agreement shall be valid from the date when this Agreement comes into force and shall remain in full force until all the principal and interest has been repaid by Mortgagor pursuant to the terms and conditions as set forth in the Loan Agreement.

Article 9 Relationship between this Agreement and the Loan Agreement

- 9.1 Following the Draw-down Date, the validity of this Agreement shall be independent of that of the Loan Agreement. This Agreement shall be amended upon any modifications of the Loan Agreement (including but not limited to the extension of the repayment period, the increase or decrease of the principal of the Loan) in accordance therewith.

Article 10 Possession, Use and Maintenance of the Mortgaged Assets

- 10.1 During the valid term of the mortgage, Mortgagor shall retain possession of the Mortgaged Assets under this Agreement. Mortgagor shall undertake the obligations to possess, use and maintain the Mortgaged Assets in accordance with the relevant provisions and to ensure that the Mortgaged Assets shall not be used in any unreasonable manner. Mortgagor agrees to allow Mortgagee or its authorized representatives to check and examine the conditions of the Mortgaged Assets from time to time subject to prior notice from Mortgagee.
- 10.2 Mortgagor shall provide Mortgagee with other means of security acceptable to Mortgagee in the event that the Mortgaged Assets are damaged or destroyed by any uninsured act of Mortgagor's under the Insurance Policy.

Article 11 Insurance

- 11.1 Mortgagor shall insure the Mortgaged Assets and always keep them insured with the Insurance Company recognized by Mortgagee and name Mortgagee as the primary beneficiary.
- 11.2 While Mortgagee's security interests in the Mortgaged Assets duly exist, Mortgagor shall punctually pay any premium and fulfill any obligations necessary for effecting and maintaining in force each insurance policy and deliver to Mortgagee copies of the relevant insurance documents evidencing continuous insurance over the Mortgaged Assets during the term of the Loan.
- 11.3 Any Insurance Proceeds paid by the Insurance Company to Mortgagee not exceeding RMB 4.0 million shall be returned by Mortgagee to Mortgagor upon its receipt thereof from the Insurance Company. The use of any Insurance

Proceeds exceeding such amount shall be determined through discussion between Mortgagor and Mortgagee.

- 11.4 Mortgagor shall comply with the provisions of the Insurance Policy and shall not vary or cause a material change to the Insurance Policy unless it obtains Mortgagee's prior written consent, which shall not be unreasonably withheld.
- 11.5 Mortgagor shall keep Mortgagee informed from time to time of the performance of the Insurance Policy and shall notify Mortgagee of the following events:
 - 11.5.1 occurring of any insured risk;
 - 11.5.2 changes of the Insurance Policy, including, without limitation, changes of the coverage of risks insured, and the amounts of the coverage, the assets insured and other terms of the Insurance Policy.
 - 11.5.3 change of the Insurance Company.

Article 12 Mortgaged Assets Registration

- 12.1 Within ten (10) Business Days after the Loan Agreement becomes effective, Mortgagor shall deliver to the relevant authoritative agency where the Mortgaged Assets are located documents necessary for registration of the mortgagee.

Article 13 Breach and Remedies

- 13.1 During the valid term of the mortgage if Mortgagor breaches its obligations herein this Agreement, Mortgagee shall have the right to require Mortgagor to rectify its breach within a specified period of time. If Mortgagee suffers any loss caused by such breach, Mortgagor shall compensate Mortgagee for such loss.
- 13.2 If Mortgagor or Mortgagee fails to fulfill all or part of its obligations provided under this Agreement, it shall be liable and compensate the other Party for the loss caused by such breach.

Article 14 Expenses

- 14.1 All expenses necessarily incurred under this Agreement shall be borne by Mortgagor (including but not limited to expenses caused for insurance, notarization, evaluation, registration, and customs duty).
- 14.2 In the event where Mortgagee pays a fee on Mortgagor's behalf which Mortgagor is required to pay herein, Mortgagee will provide official receipts and other documents as Mortgagor may request showing such payment for reimbursement by Mortgagor.

Article 15 Dispute Settlement

- 15.1 In case where a dispute arises out of the performance of this Agreement, the Parties shall endeavor to settle the dispute by negotiation. When a compromise cannot be achieved, either Party may submit the dispute to the court of competent jurisdiction located at the locality of Mortgagee for judicial remedies.
- 15.2 In case of litigation, the undisputed terms of this Agreement shall continue to be performed by the Parties.

Article 16 Miscellaneous

- 16.1 This Agreement shall become effective and binding upon the execution by the legal representatives (or duly authorized representatives) of the Parties, together with the seals of the Parties affixed hereto and any necessary registration with the appropriate governmental authorities.
- 16.2 Without written consent of Mortgagee and Mortgagor, this Agreement shall not be modified, revised or amended.
- 16.3 No right or obligations under this Agreement shall be assigned to any Third Party without the prior written consent of Mortgagee and Mortgagor.
- 16.4 This Agreement shall be executed in both English and Chinese language versions, both versions shall be equally authentic and shall have the same legal effect. In the event of any discrepancy between the two language versions, the Chinese version shall control.

16.5 This agreement is executed in ten (10) originals in the English language and ten (10) originals in the Chinese language, and each party shall retain two (2) originals of each language version.

16.6 This Agreement, the rights and obligation of Mortgagee and Mortgagor hereto and any claim or dispute relating thereto, shall be governed by and construed in accordance with the laws of the People's Republic of China.

16.7 This Agreement is executed by the Parties on December 12, 2003 in Chengdu, Sichuan Province.

Mortgagee: China Construction Bank, Sichuan Branch (Seal)

/S/ WU MINHAO

Legal (or duly authorized) Representative: Wu Minhao

Mortgagor: Leshan-Phoenix Semiconductor Company Ltd. (Seal)

/S/ H. F. LEE

Legal (or duly authorized) Representative: H. F. Lee

Confirmation for Extension of Tranche B Loan

January 3, 2004

To: Leshan-Phoenix Semiconductor Company Ltd.

Dear Sir or Madam:

We have received from your Company an Application for the Extension of Tranche B Loan dated January 2, 2004, in which Application your Company applies to our Bank for a 5-day extension of Tranche B under the Loan Agreement executed between us on December 12, 2003.

We have reviewed your application and hereby grant our consent to the extension of the Tranche B loan which then shall become mature December 31, 2006. Your Company is requested to execute further necessary documents for finalizing the extension matter hereunder in accordance with the internal regulations of China Construction Bank.

Regards,

China Construction Bank, Sichuan Branch (Seal)

Authorized Representative: /S/ WU MINHAO

Wu Minhao

WAIVER AND AMENDMENT (this "Amendment") dated as of January 16, 2004 to the Credit Agreement dated as of August 4, 1999, as amended and restated as of November 25, 2003 (as amended, supplemented or otherwise modified from time to time prior to the date hereof, the "Credit Agreement"), among ON SEMICONDUCTOR CORPORATION (formerly known as SCG HOLDING CORPORATION, "Holdings"), SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC (the "Borrower"), the LENDERS party thereto, and JPMORGAN CHASE BANK (formerly known as The Chase Manhattan Bank), 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 (a) waive the provisions of the Credit Agreement with respect to the prepayment of Tranche E Term Borrowings with 50% of the Net Proceeds of the issuance of certain Equity Interests to be issued by Holdings and (b) amend certain provisions of the Credit Agreement to (i) permit the Borrower and Holdings to purchase, redeem and retire a portion of the First Lien Notes, the Second Lien Notes and the Subordinated Debt with the proceeds of such Equity Interests and (ii) permit the Borrower to enter into certain sale and leaseback transactions.

C. The undersigned Lenders are willing so to waive such provisions and 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 to Section 1.01. Section 1.01 of the Credit Agreement is amended as follows:

(a) by adding the following defined term in the appropriate alphabetical order:

"Specified 2004 Equity Offering" means the offering and sale by Holdings of its common stock, par value \$0.01 per share, pursuant to a registration statement on Form S-3 filed with the Securities and Exchange Commission on

January 2, 2004, provided that such securities are issued on or prior to March 15, 2004.”

(b) by inserting the text “(other than a sale and leaseback transaction permitted by Section 6.06 (b))” after the text “or a sale and leaseback transaction” in clause (a) of the definition of the term “Prepayment Event”.

SECTION 2. Amendments to Section 6.05. Section 6.05 of the Credit Agreement is hereby amended as follows:

- (a) Clause (e) is amended by deleting the text “and” at the end thereof.
- (b) Clause (f) is amended by substituting the text “; and” for the text “;”.
- (c) Section 6.05 is further amended by inserting the following new clause (g) after clause (f):
“(g) sale and leaseback transactions permitted by Section 6.06;”

SECTION 3. Amendment to Section 6.06. Section 6.06 of the Credit Agreement is hereby amended by deleting it in its entirety and substituting the following therefor:

“SECTION 6.06. Sale and Leaseback Transactions. The Borrower will not, and Holdings and the Borrower will not permit any of the Subsidiaries to, enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred, except for (a) any such sale of any fixed or capital assets that is made for cash consideration in an amount not less than the cost of such fixed or capital asset and is consummated within 180 days after the Borrower or such Subsidiary acquires or completes the construction of such fixed or capital asset and (b) any such sales and leasebacks of real or personal property with an aggregate fair value not to exceed \$15,000,000 during the term of this Agreement.”

SECTION 4. Amendments to Section 6.08. Section 6.08(b) of the Credit Agreement is hereby amended as follows:

- (a) Clause (v) is amended by deleting the text “and” at the end thereof.
- (b) Clause (vi) is amended by substituting the text “; and” for the text “.”.
- (c) Section 6.08(b) is further amended by inserting the following new clause (vii) at the end thereof:

(vii) payments on account of the purchase, redemption or retirement of any First Lien Notes, Second Lien Notes or Subordinated Debt with the Net Proceeds of the Specified 2004 Equity Offering, provided that (A) after giving effect to such purchase, redemption or retirement, no Default or Event of Default shall have occurred and be continuing and (B) any such purchase, redemption or retirement shall be made within 270 days after the issuance of Equity Securities pursuant to the Specified 2004 Equity Offering and otherwise in compliance with the provisions of the First Lien Note Indenture, Second Lien Note Indenture or the Subordinated Debt Documents, as applicable (it being understood and agreed that any First Lien Notes, Second Lien Notes or Subordinated Debt purchased pursuant to this clause (vii) shall immediately be canceled).

SECTION 5. Waiver. The undersigned Lenders hereby waive the provisions of Section 2.11(c)(i)(C) of the Credit Agreement with respect to the prepayment of Tranche E Term Borrowings with 50% of the Net Proceeds of the Specified 2004 Equity Offering and consent to the application of the Net Proceeds of the Specified 2004 Equity Offering, in the Borrower's discretion, as contemplated herein. Such waiver shall automatically expire if the Specified 2004 Equity Offering is not consummated on or prior to March 15, 2004.

SECTION 6. Amendment Fee. The Borrower agrees to pay to the Administrative Agent, for the account of each Lender that delivers an executed counterpart of this Amendment at or prior to 12:00 noon, New York City time, on Friday, January 16, 2004, an amendment fee in an amount equal to 0.05% of the sum of such Lender's Revolving Commitment and outstanding Tranche E Term Loans as of the date this Amendment becomes effective, provided that such fee shall not be payable unless and until this Amendment becomes effective as provided in Section 8.

SECTION 7. 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 8. Conditions to Effectiveness. This Amendment shall become effective on the date that any Equity Interests are issued pursuant to the Specified 2004 Equity Offering (which date shall not be later than March 15, 2004), subject to satisfaction of the following conditions on or prior to such date: (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, 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 9. Credit Agreement. Except as specifically waived or 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 10. 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 11. 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 12. 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 13. 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.

JPMORGAN CHASE BANK,
individually and as administrative agent,

By: _____ /s/ EDMOND DEFOREST

Name: Edmond DeForest
Title: Vice President

SIGNATURE PAGE TO AMENDMENT AND WAIVER DATED AS OF JANUARY 16, 2004, TO THE CREDIT AGREEMENT DATED AS OF AUGUST 4, 1999, AS AMENDED AND RESTATED AS OF NOVEMBER 25, 2003, AMONG ON SEMICONDUCTOR CORPORATION, SEMICONDUCTOR COMPONENTS INDUSTRIES, LLC, THE LENDERS PARTY THERETO, AND JPMORGAN CHASE BANK, AS ADMINISTRATIVE AGENT.

Name of Institution: _____

By: _____

Name:

Title:

[Not included in this filing are numerous signature pages for the numerous banks that are Lenders under the Credit Agreement]

*CODE OF
BUSINESS CONDUCT*

[GRAPHIC]

ON SEMICONDUCTOR CORPORATION

ON Semiconductor Code of Business Conduct

August 5, 2003

Our Key Beliefs

The way we will always act

Uncompromising **Integrity**
Constant **Respect** for People

ON SEMICONDUCTOR

**DIRECTOR AND EMPLOYEE ACKNOWLEDGMENT FORM
CODE OF BUSINESS CONDUCT**

I have read and understand the *Code of Business Conduct*. I agree to comply with its terms and the terms of any revisions made to it.

I understand that the failure to sign this Acknowledgment Form or to comply with terms of the *Code of Business Conduct* could result in disciplinary action, up to and including dismissal. I also understand that I will be expected to read and acknowledge my compliance with the *Code of Business Conduct* at least every 2 years.

DIRECTOR'S OR EMPLOYEE'S NAME (printed): _____

DIRECTOR'S OR EMPLOYEE'S SIGNATURE: _____

COMMERCE ID: _____

DATE: _____

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INTRODUCTION

Times will change. Our products will change. Our people will change. Our customers will change. What will not change is our commitment to our key beliefs.

Key Beliefs

Key beliefs define who we are - as individuals and as a company. Our key beliefs have defined us for many years to each other, to our customers, our shareholders, our suppliers, our competitors and our communities.

Uncompromising integrity means staying true to what we believe. We adhere to honesty, fairness and “doing the right thing” without compromise, even when circumstances make it difficult.

Constant respect for people means we treat others with dignity, as we would like to be treated ourselves. Constant respect applies to every individual we interact with around the world.

Each of us is expected to demonstrate these key beliefs in our roles as directors and employees of ON Semiconductor Corporation and its subsidiaries. (For purposes of this *Code of Business Conduct* (“*Code*”), we are considering a subsidiary to be any corporation or other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by ON Semiconductor Corporation. Within this *Code*, ON Semiconductor Corporation and its subsidiaries are referred to as “ON Semiconductor” or the “Company”.)

Purpose of the Code of Business Conduct

This Code of Business Conduct is a guide to help directors and employees of ON Semiconductor adhere to ON Semiconductor’s high ethical standards—and their own. It summarizes many of the laws that ON Semiconductor and all directors and employees of ON Semiconductor are required to live by. The Code goes beyond the legal minimums, however, by describing the ethical values we share as directors and employees of ON Semiconductor.

This *Code* is neither a contract, nor a comprehensive manual that covers every situation that directors and employees of ON Semiconductor throughout the world might encounter. It is a guide that highlights key issues and identifies ON Semiconductor policies and resources to help you reach decisions that will make you and ON Semiconductor proud.

Responsibility and Accountability

As directors and employees of ON Semiconductor, each of us has the personal responsibility to make sure that, in discharging our duties and responsibilities as directors and employees of ON Semiconductor, we abide by this *Code* and applicable laws. Wherever we do business, the directors and employees of ON Semiconductor comply with all applicable laws, rules and regulations. The standards in this Code must be interpreted in light of the law and practices of the countries where we operate. If a conflict exists between the Code and local law, local law must prevail. If you have any questions or concerns about illegal or unethical acts at ON Semiconductor, check with management or the Law Department as described more fully at the end of this *Code*. Keep in mind that failure to abide by this *Code* and the law at ON Semiconductor will lead to disciplinary measures appropriate to the violation, up to and including dismissal.

Each director and employee of ON Semiconductor is expected to read the entire *Code*.

Additional Responsibilities of Managers

All employees who reasonably and in good faith suspect violations of the *Code* have a responsibility to report such suspected violations. However, employees with supervisory and review responsibilities have

a higher duty to detect and deter violations of this *Code*. ON Semiconductor managers are expected to lead according to our standards of ethical conduct, in both words and actions. If you are a manager, you are responsible for promoting open and honest two-way communications. Managers must be positive activists and role models by showing respect and consideration for each of our associates. You also need to be diligent in looking for indications that unethical or illegal conduct has occurred and put into place and maintain effective monitoring, review and control procedures which will prevent or detect acts of wrongdoing.

Interpretations

The General Counsel is responsible for interpreting and applying the guidelines in this *Code* to specific situations in which questions may arise. Any questions relating to how these guidelines should be interpreted or applied should be addressed directly or through your supervisor to the General Counsel.

Waivers of the Code of Business Conduct

Any employee who believes that an exception to any of these guidelines is appropriate should contact his or her immediate supervisor. If the immediate supervisor agrees that an exception is appropriate, the supervisor should seek the approval of the Company's General Counsel. All waivers to the principal executive officer, principal financial officer, principal accounting officer or controller, persons performing similar functions, or any other executive officers for ON Semiconductor Corporation, and all waivers granted to its directors, must be granted by the Board of Directors and will be disclosed by the filing of a Form 8-K with the Securities and Exchange Commission, or by utilizing another disclosure method in compliance with the laws and rules of the Securities and Exchange Commission and the National Association of Securities Dealers.

Audits: Investigations: Disciplinary Action

The General Counsel, as the Compliance Officer, will conduct periodic audits of compliance with this *Code*. Allegations of potential wrongdoing will be investigated by the Company and, upon the advice of the Law Department, will be reported to the Board of Directors or an appropriate committee.

Appropriate disciplinary penalties for violations of this *Code* may include counseling, reprimands, warnings, suspensions with or without pay, demotions, salary reductions, restitution and dismissals.

DIRECTORS AND EMPLOYEES OF ON SEMICONDUCTOR

We respect the dignity of each and every individual director and employee of ON Semiconductor.

Constant Respect

We will treat each other with respect and fairness at all times, just as we wish to be treated ourselves. We will value the difference of diverse individuals from around the world. Employment decisions will be based on business reasons such as qualifications, talents and achievements, and in compliance with local and national employment laws.

Harassment

Abusive, harassing or offensive conduct is unacceptable, whether verbal, physical or visual. Examples include derogatory comments based on gender, racial or ethnic characteristics and unwelcome sexual advances. You are encouraged to speak out when a coworker's conduct makes you or others uncomfortable, and to report harassment when it occurs.

Safety and Health

All directors and employees of ON Semiconductor are responsible for maintaining a safe workplace by following safety and health rules and practices. You are responsible for immediately reporting accidents, injuries, and unsafe equipment, practices or conditions to a supervisor or other designated person. ON Semiconductor is committed to keep its workplaces free from hazards.

In order to protect the safety of all directors and employees, each of us must report to work free from the influence of any substance that could prevent us from conducting work activities safely and effectively.

Threats or acts of violence or physical intimidation are prohibited.

Retaliation

Any person who takes any action in retaliation against any director or employee who has in good faith raised any question or concern about compliance with this Code will be subject to serious sanctions, which may include dismissal for cause. In addition, any person who takes any action in retaliation against any employee for reasonably and in good faith invoking their rights under labor or employment law will be subject to serious sanctions, which may include dismissal for cause. Making reports that are known to be false is also unacceptable.

CUSTOMERS AND CONSUMERS

ON Semiconductor exists to satisfy its customers.

Product Quality and Safety

To maintain ON Semiconductor's valuable reputation, compliance with our quality processes and safety requirements is essential. We damage our good name when we ship products or deliver services that fail to live up to ON Semiconductor standards.

Sales and Marketing

We will build long-term relationships with our customers by demonstrating honesty and integrity. All our marketing and advertising shall be accurate and truthful. Deliberately misleading messages, omission of important facts or making false claims about competitors' offerings is never acceptable.

We will only obtain business legally and ethically. Bribes or kickbacks are never acceptable. Guidance concerning customer gifts, travel and entertainment is in the *Conflict of Interest* section of this *Code*.

Customer Information

Protect customer information that is sensitive, private or confidential just as carefully as our own. Only those who have a need to know should have access to confidential information.

Government Customers

We must take special care to comply with all legal and contractual obligations in dealing with governments. National and local governments all around the world have specific and varied procurement laws and regulations that have been established to protect the public interest. These laws generally prohibit or put strict limits on gifts, entertainment and travel offered to government officials. They also often apply to the hiring of current or recently retired officials and their families, and to any conduct that may be viewed as improperly influencing objective decision-making. Many other laws strictly govern accounting and billing practices applied to the fulfillment of government contracts and subcontracts.

These laws are applicable to ON Semiconductor and all our directors and employees worldwide. When ON Semiconductor is using suppliers or subcontractors to fulfill its commitments, we may also be responsible for communicating these unique governmental requirements to them. If you deal with government officials and contracts, you are responsible for knowing and complying with applicable laws and regulations.

BUSINESS PARTNERS

Building quality relationships with other companies gives ON Semiconductor a competitive advantage.

Doing Business with Others

We will not purposely do business with others who are likely to harm ON Semiconductor's reputation. For example, we will avoid doing business with others who intentionally and continually violate the law. These laws include, for example, local environmental, employment, safety and anti-corruption statutes. All arrangements with third parties must comply with ON Semiconductor policy and the law. We will not use a third party to perform any act prohibited by law or by this *Code*.

Agents and Consultants

Commission rates or fees paid to dealers, distributors, agents, finders or consultants must be reasonable in relation to the value of the product or work that is actually being done. We will not pay commissions or fees that we have reason to believe will become bribes.

Subcontractors

Subcontractors play a vital role in the fulfillment of many of our contracts. In some cases, the subcontractor is highly visible to our customers. It is therefore very important to ensure that our subcontractors preserve and strengthen ON Semiconductor's reputation by acting consistently with our *Code*.

Joint Ventures and Alliances

ON Semiconductor will strive to ally with companies that share our commitment to ethics. We will also work to make the standards of our joint ventures compatible with our own.

Purchasing Practices

Purchasing decisions must be made based solely on the best interest of ON Semiconductor. Suppliers win ON Semiconductor business based on product or service suitability, price, delivery and quality. Purchasing agreements should be documented, and clearly identify the services or products to be provided, the basis for earning payment and the applicable rate or fee. The amount of payment must be commensurate with the services or products provided.

Business Partner Information

We will protect business partner information that is sensitive, privileged or confidential just as carefully as our own. Only those who have a need to know should have access to confidential information. In addition, we will take the steps necessary to ensure that our business partners protect the ON Semiconductor confidential information provided to them.

SHAREHOLDERS

We will treat the investment of our shareholders as if it were our own.

Protecting ON Semiconductor Assets

We have a responsibility to protect the ON Semiconductor assets entrusted to us from loss, damage, misuse or theft. ON Semiconductor assets, such as funds, products or computers, may only be used for business purposes or other purposes approved by management. ON Semiconductor assets may never be used for illegal purposes of any kind.

Confidential Proprietary Information

Directors and employees have a duty to safeguard all confidential proprietary information by marking information accordingly, keeping it secure and limiting access to those who have a need-to-know in order to do their job. Confidential proprietary information includes any non-public information, including, but not limited to, technical, engineering, designs, specifications, processes, manufacturing, financial, sales, marketing, management, quality control, or other information related to the business operations of the Company. It also includes information that suppliers and customers have entrusted to us on a confidential basis. The obligation to preserve confidential proprietary information continues even after employment ends.

Inside Information and Securities Trading

Directors and employees of ON Semiconductor are not allowed to trade in securities or any other kind of property based on knowledge that comes from their position with ON Semiconductor, if that information hasn't been reported publicly. It is against the laws of many countries, including the U.S., to trade or to "tip" others who might make an investment decision based on inside information. For example, using non-public information to buy or sell the stock of an ON Semiconductor supplier or customer is prohibited. You are responsible for complying with the ON Semiconductor Insider Trading Policy.

Accuracy of Company Records

We require honest and accurate recording and reporting of information in order to make responsible business decisions. This includes business data such as quality, safety and personnel records, as well as all financial records.

All financial books, records and accounts must accurately reflect transactions and events, and conform both to required accounting principles and to ON Semiconductor's system of internal controls. No false or artificial entries may be made. When a payment is made, it can only be used for the purpose spelled out on the supporting document.

Recording and Retaining Business Communications

All business records and communications should be clear, truthful and accurate. Business records and communications often become public through litigation, government investigations and the media. Avoid exaggeration, colorful language, guesswork, legal conclusions, derogatory remarks or characterizations of people and companies. This applies to communications of all kinds, including e-mail and "informal" notes or memos. Records should always be retained and destroyed in accordance with ON Semiconductor's record retention policies. Destruction or alteration of documents to obstruct any pending or threatened investigation or proceeding or in contemplation of a proceeding is strictly prohibited.

COMPETITORS

We compete aggressively and with integrity at the same time.

Competitive Information

We must never use any illegal or unethical methods to gather competitive information. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent or inducing such disclosures by past or present employees of other companies is prohibited.

If information is obtained by mistake that may constitute a trade secret or confidential information of another business, or if you have questions about the legality of information gathering, consult the Law Department.

Fair Competition and Antitrust

ON Semiconductor and all our directors and employees are required to comply with the antitrust and unfair competition laws of the many countries where we do business. These laws are complex and vary considerably from country to country. They generally concern:

- Agreements with competitors that harm customers, including price fixing and allocations of customers or contracts;
- Agreements that unduly limit a customer's ability to sell a product, including establishing the resale price of a product or service or conditioning the sale of products on an agreement to buy other ON Semiconductor products and services; and
- Attempts to monopolize, including pricing a product below cost in order to eliminate competition.

If you have any question whether your actions may violate competition laws, talk to the Law Department.

COMMUNITIES

ON Semiconductor is a responsible citizen in all the communities where we do business.

Community Service

We serve society by providing life-enhancing products and services at a fair price and by actively supporting the communities where we operate. ON Semiconductor and directors and employees of ON Semiconductor throughout the world provide generous financial and voluntary support to thousands of worthwhile community programs.

Personal Community Activities

You are free to support community, charity and political organizations and causes of your choice, as long as you make it clear that your views and actions are not those of ON Semiconductor. You should ensure that your outside activities do not interfere with your job performance.

No director or employee of ON Semiconductor may pressure another director or employee to express a view that is contrary to a personal belief, or to contribute to or support political, religious or charitable causes.

Environment

We will respect the environment by complying with all applicable environmental laws in all countries in which we conduct operations. ON Semiconductor is committed to the protection of the environment by minimizing the environmental impact of our operations and operating our businesses in ways that will foster a sustainable use of the world's natural resources. Directors and employees of ON Semiconductor need to support this commitment by complying with ON Semiconductor's environmental policies and programs. Notify management if hazardous materials come into contact with the environment or are improperly handled or discarded.

Communicating with External Audiences

To ensure professional and consistent handling, requests from the media should be forwarded to the local communications group, the Company's Public Relations Department or their successor groups or departments. Unfortunately, many well-intentioned interviewees have had their version of stories misinterpreted by reporters. Let the experts handle these communications.

Directors and employees of ON Semiconductor are expected to cooperate with reasonable requests for information from government agencies and regulators, and to consult with the Law Department before responding to any non-routine requests. All information provided must be truthful and accurate. We will not alter or destroy documents or records in response to an investigation or other lawful request.

Requests from financial analysts and shareholders should be forwarded to Investor Relations in the ON Semiconductor Finance Department.

GOVERNMENTS

As a responsible citizen, it is our obligation to obey the law.

Compliance with the Law

Directors and employees of ON Semiconductor around the world are required to comply with all applicable laws and regulations wherever we do business. Perceived pressures from supervisors or demands due to business conditions are not excuses for violating the law. If you have any questions or concerns about the legality of an action, you are responsible for checking with your supervisor or the Law Department as described more fully at the end of this *Code*.

ON Semiconductor Political Activities

No director or employee of ON Semiconductor may, except with approval from the Law Department, make any political contribution for ON Semiconductor or use ON Semiconductor's name, funds, property, equipment or services for the support of political parties, initiatives, committees or candidates. This includes any contribution of value. Additionally, lobbying activities or government contacts on behalf of ON Semiconductor, other than sales activities, should be coordinated with the Law Department.

Anti-Corruption Laws

ON Semiconductor will comply with the anti-corruption laws of the countries in which it does business, including the US Foreign Corrupt Practices Act (FCPA) which applies to its global business. Directors and employees of ON Semiconductor will not directly or indirectly offer or make a corrupt payment to government officials, including employees of state-owned enterprises. These requirements apply to ON Semiconductor employees, directors and agents, such as Third Party Sales Representatives, no matter where they are doing business. If you are authorized to engage agents, make sure that they are reputable and require them to agree in writing to ON Semiconductor's standards in this area.

Crossing National Borders

When importing or exporting products, services, information or technology, ON Semiconductor will comply with applicable US and other national laws, regulations and restrictions. In addition, if you travel internationally on Company business you are also subject to laws governing what you import and export. Directors and employees of ON Semiconductor are responsible for knowing the laws that pertain to them, and for checking with their import/export compliance manager when in doubt.

CONFLICT OF INTERESTS

We will make business decisions based on the best interests of ON Semiconductor.

General Guidance

Business decisions and actions must be based on the best interests of ON Semiconductor and must not be motivated by personal considerations or relationships. Relationships with prospective or existing suppliers, contractors, customers, competitors or regulators must not affect our independent and sound judgment on behalf of ON Semiconductor. General guidelines to help directors and employees of ON Semiconductor better understand several of the most common examples of situations that may cause a conflict of interest are listed below. However, you are required to disclose to management any situation that may be, or appear to be, a conflict of interest. When in doubt, it is best to disclose.

Outside Employment

Directors and employees of ON Semiconductor may not work for or receive payments for services from any competitor, customer, distributor or supplier of ON Semiconductor without approval of the Law Department or the Board of Directors, as appropriate. Even where approval is granted, directors and employees must take appropriate steps to separate Company and non-Company activities. In the case of employees, any outside activity must be strictly separated from ON Semiconductor employment and should not harm your job performance for ON Semiconductor.

Board Memberships

Employees serving on the Board of Directors or a similar body for an outside company or government agency must obtain the advance approval of the Law Department or the Board of Directors, as appropriate. Helping the community by serving on boards of non-profit or community organizations is encouraged and does not require prior approval.

Family Members and Close Personal Relationships

You may not use personal influence to get ON Semiconductor to do business with a company in which you, your family member or your friend has an interest. Employees who have relatives or friends that work for competitors should bring this fact to the attention of their immediate supervisor and discuss any difficulties that might arise and take appropriate steps to minimize any potential conflict of interest.

Loans to Directors and Employees

Loans to and guarantees of the obligations of directors or employees incurred for personal reasons may also present a conflict of interest. Most loans to the Company's directors and executive officers are prohibited by law. It is ON Semiconductor's policy that loans will generally not be made to directors or executive officers.

Investments

Directors and employees must not make any personal investment if the investment might affect or appear to affect your ability to make unbiased business decisions for the Company. You must not allow your existing investments to affect or appear to affect your unbiased business decisions for the Company. This could happen in many ways, but it is most likely to create the appearance of a conflict of interest if you have an investment in a competitor, supplier, customer, or distributor and your decisions may have a business impact on this outside party. If there is any doubt about how an investment might be perceived, it should be disclosed to management or the Law Department.

You are also prohibited from directly or indirectly buying, or otherwise acquiring rights to any property or materials, when you know that ON Semiconductor may be interested in pursuing such an opportunity and the information is not public.

Gifts

Gifts are not always physical objects—they might also be services, favors or other items of value.

Gifts to Directors and Employees of ON Semiconductor

Directors and employees of ON Semiconductor should not accept gifts that are excessive in value in connection with their positions with the Company. Acceptance of any gift that has a material value should be discussed in advance with your supervisor or the Law Department. No director or employee may accept bribes, kickbacks or payoffs. We will not accept anything that might make it appear that our independent judgment would be compromised or that might embarrass ON Semiconductor if publicly disclosed.

In some rare situations, it would be impractical or harmful to refuse or return a gift. When this happens, discuss the situation with your supervisor or the Law Department.

Gifts Given by ON Semiconductor

Some business situations call for giving gifts. ON Semiconductor's gifts must be legal, reasonable and approved in advance by your supervisor. Directors and employees of ON Semiconductor never pay bribes.

We understand that gift-giving practices vary among cultures. Our local gift policies and guidelines address this. Find out if you have one for your region.

We will not provide any gift if it is prohibited by law or the policy of the recipient's government or organization. For example, the employees of many government entities around the world are prohibited from accepting gifts. Get approval from your supervisor or the Law Department in each instance.

Entertainment

We consider "entertainment" to include a representative of both parties at the event.

Entertainment of Directors and Employees of ON Semiconductor

Directors and employees of ON Semiconductor don't accept entertainment that is excessive in value. In most cases we can accept entertainment that is reasonable in the context of the business, such as accompanying a business associate to a cultural or sporting event or to a business meal. Acceptance of any offer of entertainment that has a material value should be discussed in advance with your supervisor or the Law Department. We will not accept anything that might make it appear that our independent judgment would be compromised or that might embarrass ON Semiconductor if publicly disclosed.

If accepting the entertainment might appear to influence your independent judgment on behalf of ON Semiconductor or may otherwise seem inappropriate, turn down the offer, pay the true value of the entertainment yourself or discuss the situation with your supervisor or the Law Department. In some rare situations, it would be impractical or harmful to refuse to attend offered entertainment. When this happens, discuss the situation with your supervisor or the Law Department.

Entertainment by ON Semiconductor

We may provide entertainment that is reasonable in the context of the business. If you have a concern about whether providing entertainment is appropriate, discuss it with your supervisor or the Law Department in advance.

We understand that entertainment practices vary among cultures. Our local entertainment policies and guidelines address this. Find out if you have one for your region.

We will not provide entertainment if it is prohibited by law or the policy of the recipient's government or organization. For example, the employees of many government entities around the world are prohibited from accepting a gift of entertainment. Get prior approval from your supervisor or the Law Department in each instance.

Travel

Acceptance of Travel Expenses

Employees of ON Semiconductor may accept transportation and lodging provided by an ON Semiconductor supplier or other third party, if the trip is for business and is approved in advance by the employee's supervisor. All travel accepted must be accurately recorded in the employee's or director's travel expense records.

Providing Travel

Unless prohibited by law or the policy of the recipient's organization, ON Semiconductor may pay the transportation and lodging expenses incurred by customers, agents or suppliers in connection with a visit to an ON Semiconductor facility or product installation. The visit must be for a business purpose, for example, on-site examination of equipment, contract negotiations, or training.

All travel by government officials that is sponsored or paid for by ON Semiconductor must be approved in advance by the Law Department and either a Senior Vice President or the Chief Executive Officer of ON Semiconductor Corporation.

FINANCIAL CODE OF ETHICS

As a public company, it is our obligation to make sure that our public reports are accurate, complete, fair and understandable.

Providing Financial Information

Directors and employees of ON Semiconductor may be called upon to provide information to be used in our public reports. We expect all our personnel to take this responsibility very seriously and to provide prompt and accurate answers to inquiries related to our public disclosure requirements.

Special Responsibility

The Finance Department, certain Company officers and the directors of ON Semiconductor bear a special responsibility for promoting integrity within the Company and ensuring the accuracy and completeness of the public disclosures provided by ON Semiconductor. Because of this special role, each member of the Board of Directors, the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and each member of the Finance Department, of ON Semiconductor Corporation and each of its subsidiaries, is bound by the following *Financial Code of Ethics*, and by accepting the *Code of Business Conduct*, each agrees that he or she will:

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest involving personal and professional relationships;
- Provide information that is accurate, complete, objective, relevant, timely and understandable;
- Comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies;
- Act in good faith, responsibly, with due care and competence, and without misrepresenting material facts or allowing one's independent judgment to be subordinated;
- Respect the confidentiality of information acquired in the course of one's work except when authorized or otherwise legally obligated to disclose such information, and not use confidential information acquired in the course of one's work for personal advantage;
- Share knowledge and maintain skills important and relevant to the Company's business;
- Promote and be an example of ethical behavior as a responsible partner among peers, in the work environment and the community;
- Achieve responsible use of and control over all assets and resources of the Company entrusted to him or her;
- Promptly report any conduct that the individual believes to be a violation of law or business ethics or of any provision of this *Financial Code of Ethics*, including any transaction or relationship that reasonably could be expected to give rise to such a conflict to one or more of the persons listed above.

Violations of the Financial Code of Ethics and Reporting of Violations

Violations of this *Financial Code of Ethics*, including failures to report potential violations by others, will be viewed as a severe disciplinary matter that may result in personnel action, including dismissal. If you believe that a violation of the *Financial Code of Ethics* has occurred, contact the Company's General Counsel or, if you prefer to do so on an anonymous basis, by calling the Ethics Hotline at 1-800-952-3792.

- It is against Company policy to retaliate against any director or employee for reasonable and good faith reporting of violations of the *Financial Code of Ethics*.

How to Get Help

Employees who have questions about the ON Semiconductor *Code of Business Conduct*, should first consult their supervisor or manager. Employees who are uncomfortable with discussing the issue with a supervisor or manager should consult with another member of management, Corporate Audit, Human Resources, or the Law Department. Directors should consult the Board of Directors, its Chairman or the Law Department regarding questions about the *Code*.

Our Open Door Policy allows you the freedom to approach any level of management with your concerns. The Company has also established a hotline that can be accessed by telephone. Directors or employees who use the hotline are guaranteed confidential treatment. All director and employee communications made in good faith will be treated promptly and professionally and without risk of retribution whatsoever.

Key Beliefs

It would be wonderful if the right thing to do were always perfectly clear. In the real world of business, however, things are not always obvious. If ever in a situation where the “right thing” is unclear or doing the right thing is difficult, remember our key beliefs.

***Does my action reflect ON Semiconductor’s key beliefs
of integrity and respect?***

*To ON Semiconductor directors and employees? To customers?
To business partners, competitors and shareholders?
To the government? To the public?*

***If you wouldn’t want your action
to appear in the media,
it’s probably not the right thing to do.***

Compliance Officer

The General Counsel of the Company has been appointed the Compliance Officer for the *Code of Business Conduct*.

Reporting Concerns

Employees are encouraged and should report to the Company any situation in which they reasonably and in good faith believe another employee or consultant of the Company or any of its subsidiaries may not be adhering to the guidelines set forth in this *Code* or any other situation in which they reasonably and in good faith believe the guidelines are not being observed. Make this report to either the Law Department or, if you prefer to do so on an anonymous basis, by calling the Ethics Hotline. If a supervisor receives such a report, he or she should immediately notify the Law Department.

Ethics Hotline: 1-800-952-3792

Law Department: 1-602-244-3839*

* Use this telephone number, if you are located outside the United States and the 1-800 Ethics Hotline is not operational in your Country.

ON SEMICONDUCTOR CORPORATION

List of Subsidiaries as of 12/31/03 (1)**SCG (Czech) Holding Corporation {Delaware}****SCG (China) Holding Corporation {Delaware}**

Leshan-Phoenix Semiconductor Company Limited [JV] {Leshan, China}

SCG (Malaysia SMP) Holding Corporation {Delaware}**Semiconductor Components Industries, LLC {Delaware}**

Semiconductor Components Industries of Rhode Island, Inc. {Rhode Island}

Semiconductor Components Industries International of Rhode Island, Inc. {Rhode Island}

Semiconductor Components Industries Puerto Rico, Inc. {Delaware}

ON Semiconductor Slovakia a.s. {Slovak Republic}

SCG International Development, LLC {Delaware}

SCG Malaysia Holdings Sdn. Bhd. {Malaysia}

SCG Industries Malaysia Sdn. Bhd. {Malaysia}

ON Semiconductor Technology Malaysia Sdn. Bhd. {Malaysia}

SCG Mexico, S.A. de C.V. {Mexico}

ON Semiconductor Technology Japan Ltd. {Japan}

ON Semiconductor Japan Ltd. {Japan}

SCG Philippines, Incorporated {Philippines}

SCG Asia Capital Pte. Ltd. {Malaysia}

SCG Czech Design Center s.r.o. {Czech Republic}

ON Semiconductor CHC, s.r.o. {Czech Republic}

ON Semiconductor Czech Republic, a.s. {Czech Republic}

ON Semiconductor Hong Kong Design Limited {Hong Kong, China}[also d/b/a ON Semiconductor]

ON Semiconductor Design (Shanghai) Limited {China}

ON Semiconductor Trading Ltd. {Bermuda}

ON Semiconductor Denmark ApS {Denmark}

Semiconductor Components Industries Singapore Pte Ltd {Singapore}

SCG Hong Kong SAR Limited {Hong Kong, China} [also d/b/a ON Semiconductor]

ON Semiconductor Trading (Shanghai) Limited

ON Semiconductor (Shenzhen) Limited

ON Semiconductor Limited {United Kingdom}

SCG Korea Ltd. {Korea}

ON Semiconductor Canada Trading Corporation {Canada}

ON Semiconductor Germany GmbH {Germany}

ON Semiconductor France SAS {France}

ON Semiconductor Italy S.r.l. {Italy}

“{ }” Denotes jurisdiction

(1) Listing includes only doing business names and does not include trade names.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-111702 and No. 333-73320) and the Registration Statements on Form S-8 (No. 333-34130, No. 333-37638, No. 333-71336 and No. 333-107895) of ON Semiconductor Corporation of the following reports, all of which appear in ON Semiconductor Corporation's Annual Report on Form 10-K to be filed on or about March 10, 2004:

- Our report dated February 2, 2004 relating to the financial statement schedule of ON Semiconductor Corporation;
- Our report dated February 2, 2004, except for the third paragraph of Note 2 and the third paragraph of Note 11 for which the date is February 9, 2004, relating to the consolidated financial statements of ON Semiconductor Corporation;
- Our report dated February 2, 2004, except for the third paragraph of Note 2 for which the date is February 9, 2004, relating to the consolidated financial statements of Semiconductor Components Industries, LLC (a wholly-owned subsidiary of ON Semiconductor Corporation);
- Our report dated February 2, 2004, except for the third paragraph of Note 2 for which the date is February 9, 2004, relating to the consolidated financial statements of SCG (China) Holding Corporation (a wholly-owned subsidiary of ON Semiconductor Corporation);
- Our report dated February 2, 2004, except for the third paragraph of Note 2 for which the date is February 9, 2004, relating to the consolidated financial statements of ON Semiconductor Trading Ltd. (an indirect wholly-owned subsidiary of ON Semiconductor Corporation);
- Our report dated February 2, 2004, except for the third paragraph of Note 2 for which the date is February 9, 2004, relating to the consolidated financial statements of SCG Malaysia Holdings Sdn. Bhd. (an indirect wholly-owned subsidiary of ON Semiconductor Corporation); and,
- Our report dated February 2, 2004, except for the third paragraph of Note 2 for which the date is February 9, 2004, relating to the financial statements of SCG Philippines, Incorporated (an indirect wholly-owned subsidiary of ON Semiconductor Corporation).

By: /s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona
March 10, 2004

POWER OF ATTORNEY
(Dan McCranie)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as Chairman of the Board of Directors of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ DAN MCCRANIE

Dan McCranie

POWER OF ATTORNEY
(Richard W. Boyce)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ RICHARD W. BOYCE

Richard W. Boyce

POWER OF ATTORNEY
(Kevin Burns)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 6, 2004

/s/ KEVIN BURNS

Kevin Burns

POWER OF ATTORNEY

(Justin T. Chang)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ JUSTIN T. CHANG

Justin T. Chang

POWER OF ATTORNEY
(Donald Colvin)

I hereby appoint Bill George, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me on behalf of the registrant, ON Semiconductor Corporation, and/or as a Chief Financial Officer and/or Treasurer of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ DONALD COLVIN

Donald Colvin

POWER OF ATTORNEY
(Curtis J. Crawford)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ CURTIS J. CRAWFORD

Curtis J. Crawford

POWER OF ATTORNEY
(William A. Franke)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ WILLIAM A. FRANKE

William A. Franke

POWER OF ATTORNEY
(Jerome N. Gregoire)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ JEROME N. GREGOIRE

Jerome N. Gregoire

POWER OF ATTORNEY
(Emmanuel Hernandez)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ EMMANUEL HERNANDEZ

Emmanuel Hernandez

POWER OF ATTORNEY

(Keith D. Jackson)

I hereby appoint Donald Colvin, Bill George and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me on behalf of the registrant, ON Semiconductor Corporation, and/or as a Director and/or Chief Executive Officer of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ KEITH D. JACKSON

Keith D. Jackson

POWER OF ATTORNEY

(John W. Marren)

I hereby appoint Donald Colvin, Keith D. Jackson and George H. Cave, and each of them, my attorneys-in-fact, each with full power of substitution, to sign for me as a Director of ON Semiconductor Corporation and file with the Securities and Exchange Commission the Corporation's Form 10-K Annual Report for 2003, and any amendments.

Dated: March 5, 2004

/s/ JOHN W. MARREN

John W. Marren

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Keith D. Jackson, certify that:

1. I have reviewed this annual report on Form 10-K of ON Semiconductor Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - c) disclosed in this annual 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: March 10, 2004

/s/ KEITH D. JACKSON

Keith D. Jackson
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald Colvin, certify that:

1. I have reviewed this annual report on Form 10-K of ON Semiconductor Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - c) disclosed in this annual 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: March 10, 2004

/s/ DONALD COLVIN

Donald Colvin
Chief Financial Officer

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

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

The Annual Report on Form 10-K for the fiscal year ended December 31, 2003 ("Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2004

/s/ KEITH D. JACKSON

Keith D. Jackson
President and Chief Executive Officer

Dated: March 10, 2004

/s/ DONALD COLVIN

Donald Colvin
Senior 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.)