# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended July 4, 2003**

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

**For the transition period from to .**

**Commission File Number 000-30419**

# ON SEMICONDUCTOR CORPORATION

**(Exact name of registrant as specified in its charter)**

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

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on August 1, 2003:

| Class | Number of Shares |
|---|---|
| Common Stock; $.01 par value | 177,424,491 |

Table of Contents

# INDEX


| | Page |
|---|---|
| Part I | |
| Financial Information | 3 |
| Item 1 Financial Statements | 3 |
| Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations | 27 |
| Item 3 Quantitative and Qualitative Disclosures About Market Risk | 47 |
| Item 4 Controls and Procedures | 48 |
| Part II | |
| Other Information | 49 |
| Item 1 Legal Proceedings | 49 |
| Item 2 Changes in Securities and Use of Proceeds | 50 |
| Item 3 Defaults Upon Senior Securities | 50 |
| Item 4 Submission of Matters to a Vote of Security Holders | 50 |
| Item 5 Other Information | 51 |
| Item 6 Exhibits and Reports on Form 8-K | 51 |
| Signatures | 52 |
| Exhibits | |

## PART I: FINANCIAL INFORMATION

*Item 1. Financial Statements*

### ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET
**(in millions, except share data)**

| | July 4, 2003 | December 31, 2002(1) |
|---|---|---|
| | (unaudited) | |
| **Assets** | | |
| Cash and cash equivalents | $ 181.2 | $ 190.4 |
| Receivables, net (including $7.3 and $4.7 due from Motorola) | 130.1 | 115.4 |
| Inventories, net | 175.6 | 163.5 |
| Other current assets | 32.8 | 39.4 |
| Deferred income taxes | 7.4 | 6.4 |
| Total current assets | 527.1 | 515.1 |
| Property, plant and equipment, net | 532.7 | 585.3 |
| Goodwill | 77.3 | 77.3 |
| Intangible asset, net | — | 26.7 |
| Other assets | 40.2 | 39.0 |
| Total assets | $ 1,177.3 | $ 1,243.4 |
| **Liabilities, Minority Interests, Redeemable Preferred Stock and Stockholders' Equity (Deficit)** | | |
| Accounts payable (including $0.2 and $0.1 payable to Motorola) | $ 113.0 | $ 74.1 |
| Accrued expenses (including $0 and $0.7 payable to Motorola) | 83.7 | 100.6 |
| Income taxes payable | 16.8 | 11.0 |
| Accrued interest | 27.9 | 43.6 |
| Deferred income on sales to distributors | 64.3 | 70.8 |
| Current portion of long-term debt | 24.9 | 19.8 |
| Total current liabilities | 330.6 | 319.9 |
| Long-term debt (including $133.4 and $126.9 payable to Motorola) | 1,416.7 | 1,403.4 |
| Other long-term liabilities | 40.1 | 42.9 |
| Deferred income taxes | 0.7 | 2.2 |
| Total liabilities | 1,788.1 | 1,768.4 |
| Commitments and contingencies (See Note 8) | — | — |
| Minority interests in consolidated subsidiaries | 25.4 | 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; liquidation value—$100.0 plus $15.3 and $10.9 of accrued dividends) | 114.5 | 110.1 |
| Common stock ($0.01 par value, 500,000,000 shares authorized, 177,116,324 and 176,439,900 shares issued and outstanding) | 1.8 | 1.8 |
| Additional paid-in capital | 733.8 | 737.4 |
| Accumulated other comprehensive income (loss) | (11.3) | (34.3) |
| Accumulated deficit | (1,475.0) | (1,367.0) |
| Total stockholders' equity (deficit) | (750.7) | (662.1) |
| Total liabilities, minority interests, redeemable preferred stock and stockholders' equity (deficit) | $ 1,177.3 | $ 1,243.4 |

(1) Amounts have been revised from those previously reported to reflect the consolidation of the Company's majority-owned investment in Leshan-Phoenix Semiconductor described in Note 1.

See accompanying notes to consolidated financial statements.

Table of Contents

## ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 4, 2003 | June 28, 2002(1) | July 4, 2003 | June 28, 2002(1) |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenues (including $15.2, $22.4, $36.7 and $40.2 from Motorola) | $ 256.2 | $ 280.6 | $ 525.7 | $ 551.6 |
| Cost of sales | 182.8 | 198.5 | 377.9 | 407.6 |
| Gross profit | 73.4 | 82.1 | 147.8 | 144.0 |
| Operating expenses: | | | | |
| Research and development | 17.0 | 16.2 | 34.7 | 33.5 |
| Selling and marketing | 15.6 | 15.2 | 31.7 | 29.8 |
| General and administrative | 21.1 | 26.7 | 42.4 | 55.9 |
| Amortization of intangible asset | 2.9 | 3.0 | 5.9 | 6.0 |
| Restructuring, asset impairments and other | 34.6 | 3.1 | 34.6 | 10.2 |
| Total operating expenses | 91.2 | 64.2 | 149.3 | 135.4 |
| Operating income (loss) | (17.8) | 17.9 | (1.5) | 8.6 |
| Other income (expenses), net: | | | | |
| Interest expense | (38.5) | (37.6) | (76.9) | (73.6) |
| Loss on debt prepayment | — | (6.5) | (3.5) | (6.5) |
| Other income (expenses), net | (38.5) | (44.1) | (80.4) | (80.1) |
| Loss before income taxes, minority interests and cumulative effect of accounting change | (56.3) | (26.2) | (81.9) | (71.5) |
| Income tax provision | (2.3) | (4.0) | (4.5) | (8.1) |
| Minority interests | 1.1 | (1.6) | (0.1) | (2.2) |
| Net loss before cumulative effect of accounting change | (57.5) | (31.8) | (86.5) | (81.8) |
| Cumulative effect of accounting change (See Note 3) | — | — | (21.5) | — |
| Net loss | (57.5) | (31.8) | (108.0) | (81.8) |
| Less: Redeemable preferred stock dividends | (2.2) | (2.1) | (4.4) | (4.2) |
| Net loss applicable to common stock | $ (59.7) | $ (33.9) | $ (112.4) | $ (86.0) |
| Comprehensive loss: | | | | |
| Net loss | $ (57.5) | $ (31.8) | $ (108.0) | $ (81.8) |
| Foreign currency translation adjustments | (0.4) | 2.5 | 0.3 | 1.7 |
| Additional minimum pension liability adjustment | — | — | 19.6 | — |
| Effects of cash flows hedges | 1.7 | (1.2) | 3.1 | 2.0 |
| Comprehensive loss | $ (56.2) | $ (30.5) | $ (85.0) | $ (78.1) |
| Loss per common share: | | | | |
| Basic: | | | | |
| Net loss available for common stock | $ (0.34) | $ (0.19) | $ (0.64) | $ (0.49) |
| Diluted: | | | | |
| Net loss available for common stock | $ (0.34) | $ (0.19) | $ (0.64) | $ (0.49) |
| Weighted average common shares outstanding: | | | | |
| Basic | 176.8 | 175.5 | 176.6 | 175.2 |
| Diluted | 176.8 | 175.5 | 176.6 | 175.2 |

(1) Amounts have been revised from those previously reported to reflect the consolidation of the Company's majority- owned investment in Leshan-Phoenix Semiconductor described in Note 1.

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

## ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(in millions)**

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 4, 2003 | June 28, 2002 (1) | July 4, 2003 | June 28, 2002 (1) |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Cash flows from operating activities: | | | | |
| Net loss | $ (57.5) | $ (31.8) | $ (108.0) | $ (81.8) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 36.6 | 36.7 | 72.6 | 74.1 |
| Loss on debt prepayment | — | 6.5 | 3.5 | 6.5 |
| Amortization of debt issuance costs and debt discount | 2.4 | 2.0 | 4.6 | 3.6 |
| Provision for excess inventories | 2.3 | 4.0 | 6.3 | 14.7 |
| Cumulative effect of accounting change | — | — | 21.5 | — |
| Non-cash impairment write-down of property, plant and equipment | 10.5 | 8.4 | 10.5 | 8.4 |
| Non-cash interest on junior subordinated note payable to Motorola | 3.2 | 2.9 | 6.5 | 5.6 |
| Non-cash write down of intangible asset | 20.8 | — | 20.8 | — |
| Deferred income taxes | — | 3.9 | (2.5) | 4.6 |
| Stock compensation expense | — | 1.0 | 0.1 | 1.3 |
| Other | 1.3 | 2.4 | 3.2 | 3.0 |
| Changes in assets and liabilities: | | | | |
| Receivables | (0.7) | 5.8 | (12.7) | (2.3) |
| Inventories | (7.4) | 5.1 | (18.4) | 7.2 |
| Other assets | (3.5) | 1.1 | 4.1 | — |
| Accounts payable | 5.3 | (15.0) | 38.9 | (15.4) |
| Accrued expenses | (0.7) | (13.7) | (16.0) | (10.9) |
| Income taxes payable | 2.0 | (4.5) | 5.8 | (2.7) |
| Accrued interest | 5.1 | 17.4 | (15.7) | 16.5 |
| Deferred income on sales to distributors | (3.9) | (2.8) | (6.5) | (24.1) |
| Other long-term liabilities | (3.7) | 1.9 | (1.9) | 4.2 |
| Net cash provided by operating activities | 12.1 | 31.3 | 16.7 | 12.5 |
| Cash flows from investing activities: | | | | |
| Purchases of property, plant and equipment | (18.4) | (15.0) | (24.6) | (27.8) |
| Acquisition of minority interests in consolidated subsidiaries | (1.8) | — | (1.8) | — |
| Proceeds from sales of property, plant and equipment | — | 2.3 | — | 2.5 |
| Net cash used in investing activities | (20.2) | (12.7) | (26.4) | (25.3) |
| Cash flows from financing activities: | | | | |
| Proceeds from debt issuance, net of discount | — | 290.7 | 190.9 | 290.7 |
| Proceeds from issuance of common stock under the employee stock purchase plan | 0.2 | 0.4 | 0.4 | 1.2 |
| Proceeds from stock option exercises | 0.3 | 0.3 | 0.3 | 0.7 |
| Payment of capital lease obligation | — | (0.4) | — | (1.1) |
| Payment of debt issuance costs | (1.3) | (11.4) | (10.6) | (11.4) |
| Repayment of long-term debt | — | (280.5) | (180.9) | (283.3) |
| Net cash provided by (used in) financing activities | (0.8) | (0.9) | 0.1 | (3.2) |
| Effect of exchange rate changes on cash and cash equivalents | 0.1 | 1.0 | 0.4 | 0.9 |
| Net increase (decrease) in cash and cash equivalents | (8.8) | 18.7 | (9.2) | (15.1) |
| Cash and cash equivalents, beginning of period | 190.0 | 152.2 | 190.4 | 186.0 |
| Cash and cash equivalents, end of period | $ 181.2 | $ 170.9 | $ 181.2 | $ 170.9 |

(1) Amounts have been revised from those previously reported to reflect the consolidation of the Company’s majority- owned investment in Leshan-Phoenix Semiconductor described in Note 1.

See accompanying notes to consolidated financial statements.

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(unaudited)**

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

The accompanying consolidated financial statements include the accounts of ON Semiconductor Corporation and its wholly-owned and majority-owned subsidiaries, (collectively, the “Company”). Investments in companies that represent less than 20% of the related voting stock and over which the Company does not exert significant influence 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 (“Leshan”) meets the definition of a VIE as its economic interest in Leshan is proportionately greater than its ownership interest and, therefore, the investment in Leshan should be consolidated under FIN No. 46. The Company had previously accounted for its investment in Leshan using the equity method as it does not have effective control over Leshan. While consolidation of the Company’s investment in Leshan did not impact the Company’s previously reported net income (loss) or stockholders’ equity (deficit), financial information of prior periods has been revised for comparative purposes as allowed by FIN No. 46.

The accompanying unaudited financial statements as of July 4, 2003 and for the three months and six months ended July 4, 2003 and June 28, 2002, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of the Company’s management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of December 31, 2002 and for the year then ended included in the Company’s annual report on Form 10-K for the year ended December 31, 2002.

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

**Note 2: Liquidity**

During the quarter and six months ended July 4, 2003, the Company incurred a net loss of $57.5 million and $108.0 million, respectively, compared to a net loss of $31.8 million and $81.8 million, respectively, for the quarter and six months ended June 28, 2002. The Company’s net loss included restructuring, asset impairments and other charges of $34.6 million for the quarter and six months ended July 4, 2003 as compared to $3.1 million and $10.2 million for the quarter and six months ended June 28, 2002, respectively. The Company’s net loss for the first six months of 2003 also included a charge of $21.5 million relating to a change in accounting principle described in Note 3. Net cash provided by operating activities was $12.1 million and $16.7 million in the quarter

and six months ended July 4, 2003, respectively as compared to net cash provided by operating activities of $31.3 million and $12.5 million for the quarter and six months ended June 28, 2002, respectively.

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

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

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

**Note 3: Accounting Change**

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

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

Table of Contents

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

The effect of the accounting change on the quarter ended April 4, 2003 and the second quarter and six months ended June 28, 2002 is as follows (in millions, except per share data):

| | Quarter Ended | | Six Months Ended |
|---|---|---|---|
| | April 4, 2003 | June 28, 2002(1) | June 28, 2002 |
| | (Restated) | (Pro forma) | (Pro forma) |
| Reported loss before cumulative effect of accounting change | $ (30.6) | $ (31.8) | $ (81.8) |
| Add back: Amortization of actuarial losses | 1.6 | 1.2 | 2.5 |
| Loss before cumulative effect of accounting change | (29.0) | (30.6) | (79.3) |
| Cumulative effect of accounting change | (21.5) | — | — |
| Net loss | $ (50.5) | $ (30.6) | $ (79.3) |
| Loss per share: | | | |
| Basic | | | |
| Reported loss before cumulative effect of accounting change | $ (0.19) | $ (0.19) | $ (0.49) |
| Add back: Amortization of actuarial losses | 0.01 | 0.01 | 0.01 |
| Loss before cumulative effect of accounting change | (0.18) | (0.19) | (0.48) |
| Cumulative effect of accounting change | (0.12) | — | — |
| Net loss per share | $ (0.30) | $ (0.19) | $ (0.48) |
| Diluted | | | |
| Reported loss before cumulative effect of accounting change | $ (0.19) | $ (0.19) | $ (0.49) |
| Add back: Amortization of actuarial losses | 0.01 | 0.01 | 0.01 |
| Loss before cumulative effect of accounting change | (0.18) | (0.19) | (0.48) |
| Cumulative effect of accounting change | (0.12) | — | — |
| Net loss per share | $ (0.30) | $ (0.19) | $ (0.48) |

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

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

**Note 4: Balance Sheet Information**

Balance sheet information is as follows (in millions):

| | July 4, 2003 | December 31, 2002(1) |
|---|---|---|
| Receivables, net: | | |
| Accounts receivable | $ 132.4 | $ 117.3 |
| Less: Allowance for doubtful accounts | (2.3) | (1.9) |
| | $ 130.1 | $ 115.4 |
| Inventories, net: | | |
| Raw materials | $ 18.7 | $ 15.5 |
| Work in process | 116.0 | 109.8 |
| Finished goods | 82.1 | 81.9 |
| Total inventory | 216.8 | 207.2 |
| Less: Inventory reserves | (41.2) | (43.7) |
| | $ 175.6 | $ 163.5 |
| Property, plant and equipment, net: | | |
| Land | $ 15.2 | $ 15.0 |
| Buildings | 368.2 | 357.4 |
| Machinery and equipment | 1,022.8 | 1,055.0 |
| Total property, plant and equipment | 1,406.2 | 1,427.4 |
| Less: Accumulated depreciation | (873.5) | (842.1) |
| | $ 532.7 | $ 585.3 |
| Goodwill, net: | | |
| Goodwill | $ 95.7 | $ 95.7 |
| Less: Accumulated amortization | (18.4) | (18.4) |
| | $ 77.3 | $ 77.3 |
| Intangible asset, net: (See Note 5) | | |
| Developed technology | $ 38.5 | $ 59.3 |
| Less: Accumulated amortization | (38.5) | (32.6) |
| | $ — | $ 26.7 |
| Other assets: | | |
| Debt issuance costs | $ 37.1 | $ 33.7 |
| Other | 3.1 | 5.3 |
| | $ 40.2 | $ 39.0 |
| Accrued expenses: | | |
| Accrued payroll | $ 31.7 | $ 27.9 |
| Sales related reserves | 10.5 | 14.2 |
| Restructuring reserves | 11.1 | 19.5 |
| Other | 30.4 | 39.0 |
| | $ 83.7 | $ 100.6 |
| Other long-term liabilities: | | |
| Accrued retirement benefits | $ 31.8 | $ 33.7 |
| Cash flow hedge liability | 7.0 | 8.2 |
| Other | 1.3 | 1.0 |
| | $ 40.1 | $ 42.9 |
| Accumulated other comprehensive income (loss): | | |

| | | |
|---|---|---|
| Foreign currency translation adjustments | $ (1.7) | $ (2.0) |
| Minimum pension liability | — | (19.6) |
| Net unrealized losses and adjustments related to cash flow hedges | (9.0) | (12.1) |
| Unrealized losses on deferred compensation plan investments | (0.6) | (0.6) |
| | $ (11.3) | $ (34.3) |

(1) Amounts have been revised from those previously reported to reflect the consolidation of the Company's majority-owned investment in Leshan-Phoenix Semiconductor described in Note 1.

Table of Contents

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

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

**Note 5: Restructuring, Asset Impairments and Other**

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

| | Reserve Balance at 12/31/02 | 2003 Charges | 2003 Usage | 2003 Adjustments | Reserve Balance at 07/04/03 |
|---|---|---|---|---|---|
| *June 2003* | | | | | |
| Cash employee separation charges | $ — | $ 0.4 | $ — | $ — | $ 0.4 |
| Cash exit costs | — | 1.4 | (1.0) | — | 0.4 |
| Non-cash fixed asset write-offs | — | 10.5 | (10.5) | — | — |
| Non-cash impairment of other long-lived assets | — | 21.3 | (21.3) | — | — |
| June 2003 restructuring reserve balance | — | | | | 0.8 |
| *December 2002* | | | | | |
| Cash employee separation charges | 9.9 | — | (5.3) | — | 4.6 |
| Cash exit costs | 1.8 | — | (1.0) | — | 0.8 |
| December 2002 restructuring reserve balance | 11.7 | | | | 5.4 |
| *June 2002* | | | | | |
| Cash employee separation charges | 0.4 | — | (0.4) | — | — |
| Cash exit costs | 1.5 | — | — | 1.0 | 2.5 |
| June 2002 restructuring reserve balance | 1.9 | | | | 2.5 |
| *March 2002* | | | | | |
| Cash employee separation charges | 3.0 | — | (2.0) | — | 1.0 |
| March 2002 restructuring reserve balance | 3.0 | | | | 1.0 |
| *December 2001* | | | | | |
| Cash employee separation charges | 0.1 | — | — | — | 0.1 |
| December 2001 restructuring reserve balance | 0.1 | | | | 0.1 |
| *June 2001* | | | | | |
| Cash employee separation charges | 1.7 | — | — | (1.7) | — |
| Cash exit costs | 1.1 | — | (1.5) | 1.7 | 1.3 |
| June 2001 restructuring reserve balance | 2.8 | | | | 1.3 |
| | $ 19.5 | $ 33.6 | $ (43.0) | $ 1.0 | $ 11.1 |

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

***June 2003 Restructuring, Asset Impairments and Other***

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

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

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

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

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

***December 2002 Restructuring Program***

The remaining restructuring reserves of $5.4 million at July 4, 2003 are comprised of $4.6 million and $0.8 million related to unpaid separation costs associated with approximately 130 terminated employees and lease termination and other exit costs, respectively. The Company expects to settle its remaining obligations related to this restructuring program by December 2003.

***June 2002 Restructuring Program***

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

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

*March 2002 Restructuring Program*

The remaining restructuring reserve of $1.0 million at July 4, 2003 relates to the unpaid separation costs associated with terminated employees and the remaining 15 employees to be terminated under the program. The Company currently expects that the terminations will be completed by December 2003.

*December 2001 Restructuring Program*

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

*June 2001 Restructuring Program*

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

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

**Note 6: Loss per Common Share**

Basic loss per share is computed by dividing net income (loss) adjusted for dividends accrued on the Company's redeemable preferred stock by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share generally assumes the conversion of the convertible redeemable preferred stock into common stock and also incorporates the incremental impact of shares issuable upon the assumed exercise of stock options if such conversions or exercises are dilutive. The number of incremental shares issuable upon the assumed conversion of the convertible redeemable preferred stock is calculated by applying the if-converted method. The number of incremental shares from the assumed exercise of stock options is calculated by applying the treasury stock method. For the quarters and six months ended July 4, 2003 and June 28, 2002, neither the conversion of the redeemable preferred stock nor the effect of stock option shares were included in the computation of diluted earnings per share as the related impact would have been anti-dilutive.

Earnings (loss) per share calculations for quarters and six months ended July 4, 2003 and June 28, 2002 are as follows (in millions, except per share data):

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 4, 2003 | June 28, 2002 | July 4, 2003(1) | June 28, 2002 |
| Net loss before reedemable preferred stock dividends and cumulative effect of accounting change | $ (57.5) | $ (31.8) | $ (86.5) | $ (81.8) |
| Less: Redeemable preferred stock dividends | (2.2) | (2.1) | (4.4) | (4.2) |
| Net loss applicable to common stock before cumulative effect of accounting change | (59.7) | (33.9) | (90.9) | (86.0) |
| Cumulative effect of accounting change | — | — | (21.5) | — |
| Net loss applicable to common stock | $ (59.7) | $ (33.9) | $ (112.4) | $ (86.0) |
| Basic weighted average common shares outstanding | 176.8 | 175.5 | 176.6 | 175.2 |
| Add incremental shares for : | | | | |
| Dilutive effect of stock options | — | — | — | — |
| Convertible redeemable preferred stock | — | — | — | — |
| Diluted weighted average common shares outstanding | 176.8 | 175.5 | 176.6 | 175.2 |
| Loss per share: | | | | |
| Basic | | | | |
| Net loss applicable to common stock before cumulative effect of accounting change | $ (0.34) | $ (0.19) | $ (0.51) | $ (0.49) |
| Cumulative effect of accounting change | — | — | (0.12) | — |
| Net loss applicable to common stock | $ (0.34) | $ (0.19) | $ (0.64) | $ (0.49) |
| Diluted | | | | |
| Net loss applicable to common stock before extraordinary loss and cumulative effect of accounting change | $ (0.34) | $ (0.19) | $ (0.51) | $ (0.49) |
| Cumulative effect of accounting change | — | — | (0.12) | — |
| Net loss applicable to common stock | $ (0.34) | $ (0.19) | $ (0.64) | $ (0.49) |

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

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

As a result of the net loss experienced for the quarter and six months ended July 4, 2003 and the quarter and six months ended June 28, 2002, the number of incremental common shares relating to the assumed conversion of the convertible redeemable preferred stock (40.1 million, 39.8 million, 37.1 million and 36.8 million, respectively) and employee stock options (3.2 million, 1.8 million, 2.6 million and 3.2 million, respectively) were excluded from the calculation as the related impacts were anti-dilutive. Common shares relating to employee stock options where the exercise price exceeded the average market price of the Company's common shares during the periods were also excluded from the diluted earnings per share calculation, as the related impact was anti-dilutive. These excluded options totaled 11.6 million and 16.3 million in the quarter and six months ended July 4, 2003, respectively, and 2.7 million and 8.6 million in the quarter and six months ended June 28, 2002.

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

Had the Company determined employee stock compensation expense in accordance with SFAS No. 123, the Company's net loss for the quarters and six months ended July 4, 2003 and June 28, 2002 would have been increased to the pro forma amounts indicated below (in millions, except per share data):

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 4, 2003 | June 28, 2002 | July 4, 2003 | June 28, 2002 |
| Net loss, as reported | $ (57.5) | $ (31.8) | $ (108.0) | $ (81.8) |
| Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects | — | 1.0 | 0.1 | 1.3 |
| Less: Stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects | (4.0) | (3.9) | (7.5) | (7.4) |
| Pro forma net loss | (61.5) | (34.7) | (115.4) | (87.9) |
| Less: Redeemable preferred stock dividends | (2.2) | (2.1) | (4.4) | (4.2) |
| Pro forma net loss applicable to common stock | $ (63.7) | $ (36.8) | $ (119.8) | $ (92.1) |
| Earnings per share: | | | | |
| Basic—as reported | $ (0.34) | $ (0.19) | $ (0.64) | $ (0.49) |
| Basic—pro forma | $ (0.36) | $ (0.21) | $ (0.68) | $ (0.53) |
| Diluted—as reported | $ (0.34) | $ (0.19) | $ (0.64) | $ (0.49) |
| Diluted—pro forma | $ (0.36) | $ (0.21) | $ (0.68) | $ (0.53) |

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| **Employee Stock Options** | **July 4, 2003** | **June 28, 2002** | **July 4, 2003** | **June 28, 2002** |
| Expected life (in years) | 5 | 5 | 5 | 5 |
| Risk-free interest rate | 2.98% | 4.87% | 3.03% | 4.57% |
| Volatility | 0.70 | 0.70 | 0.70 | 0.70 |

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| **Employee Stock Purchase Plan** | **July 4, 2003** | **June 28, 2002** | **July 4, 2003** | **June 28, 2002** |
| Expected life (in years) | 0.25 | 0.25 | 0.25 | 0.25 |
| Risk-free interest rate | 1.12% | 1.79% | 1.17% | 1.76% |
| Volatility | 0.70 | 0.70 | 0.70 | 0.70 |

The weighted-average estimated fair value of employee stock options granted during the second quarters of 2003 and 2002 and the first six months of 2003 and 2002 was $0.81, $2.72, $0.77 and $2.22 per share, respectively. The weighted-average estimated fair value of the discount on the shares sold under the 2000 Employee Stock Purchase Plan during the second quarters of 2003 and 2002 and the first six months of 2003 and 2002 was $0.28, $1.14, $0.32 and $0.84 per share, respectively.

### Note 7: Long-Term Debt

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

| | July 4, 2003 | | | December 31, 2002(1) | | |
|---|---|---|---|---|---|---|
| | **Amount of Facility** | **Interest Rate** | **Balance** | **Amount of Facility** | **Interest Rate** | **Balance** |
| Senior Bank Facilities: | | | | | | |
| Tranche A | $ 200.0 | 6.70% | $ 4.8 | $ 200.0 | 6.4375% | $ 6.6 |
| Tranche B | 325.0 | 6.70% | 153.1 | 325.0 | 6.4375% | 209.9 |
| Tranche C | 350.0 | 6.70% | 164.9 | 350.0 | 6.4375% | 226.0 |
| Tranche D | 200.0 | 6.70% | 97.9 | 200.0 | 6.4375% | 134.1 |
| Tranche R | 62.5 | 6.70% | 62.5 | — | — | — |
| Revolver | 62.5 | 6.70% | 37.5 | 150.0 | 6.4375% | 125.0 |
| | | | 520.7 | | | 701.6 |
| First-Lien Senior Secured Notes due 2010, 12% interest payable semi-annually,net of debt discount of $8.8 | | | 191.2 | | | — |
| Second-Lien Senior Secured Notes due 2008, 13% interest effective Feburary 2003 payable semi-annually, net of debt discount of $ 8.0 and $8.6 | | | 292.0 | | | 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 | | | 133.4 | | | 126.9 |
| 2.25% Note payable to Japanese bank due 2010 | | | 23.4 | | | 23.3 |
| Loan facility with a Chinese bank (currently 3.5%) | | | 20.0 | | | 20.0 |
| Capital lease obligation | | | 0.9 | | | — |
| | | | 1,441.6 | | | 1,423.2 |
| Less: Current maturities | | | (24.9) | | | (19.8) |
| | | | $ 1,416.7 | | | $ 1,403.4 |

(1) Amounts have been revised from those previously reported to reflect the consolidation of the Company's majority owned investment in Leshan-Phoenix Semiconductor described in Note 1.

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

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

| | |
|---|---|
| Remainder of 2003 | $ 12.3 |
| 2004 | 16.0 |
| 2005 | 155.8 |
| 2006 | 194.5 |
| 2007 | 176.8 |
| Thereafter | 886.2 |
| Total | $1,441.6 |

In connection with the consolidation of Leshan described in Note 1, the Company's long-term debt now includes a $20 million loan facility between Leshan and a Chinese Bank. Aggregate loans under this facility, which was entered into in November 2000, are comprised of $16 million of borrowings denominated in U.S. dollars and $4 million of borrowings denominated in Chinese Renminbi (based on current exchange rates). Interest on these loans is payable quarterly and accrues at a variable rate based on published market rates in China for six-year term loans (3.5% at July 4, 2003). Scheduled principal payments consist of $10.5 million due in the fourth quarter of 2003 and $9.5 million due in the first quarter of 2004. In regards to this loan facility, the Company is in refinancing discussions with the bank at this time. Under the current agreement the Company has the ability to extend the maturity of this loan for three years under the same terms and conditions.

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

## ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
**(unaudited)**

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

| | Issuers | | | | | |
|---|---|---|---|---|---|---|
| | ON Semiconductor Corporation | SCI LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
| **As of July 4, 2003** | | | | | | |
| Cash and cash equivalents | $ — | $ 105.7 | $ — | $ 75.5 | $ — | $ 181.2 |
| Receivables, net | — | 38.8 | — | 91.3 | — | 130.1 |
| Inventories, net | — | 21.7 | 2.7 | 164.7 | (13.5) | 175.6 |
| Other current assets | — | 3.5 | — | 36.7 | — | 40.2 |
| Total current assets | — | 169.7 | 2.7 | 368.2 | (13.5) | 527.1 |
| Property, plant and equipment, net | — | 87.8 | 32.7 | 412.2 | — | 532.7 |
| Goodwill | — | 8.1 | 69.2 | — | — | 77.3 |
| Investments and other assets | (681.1) | 75.6 | 48.3 | 0.6 | 596.8 | 40.2 |
| Total assets | $ (681.1) | $ 341.2 | $ 152.9 | $ 781.0 | $ 583.3 | $ 1,177.3 |
| Accounts payable | $ — | $ 41.2 | $ 3.0 | $ 68.8 | $ — | $ 113.0 |
| Accrued expenses and other current liabilities | — | 99.7 | 1.1 | 50.6 | 1.9 | 153.3 |
| Deferred income on sales to distributors | — | 29.8 | — | 34.5 | — | 64.3 |
| Total current liabilities | — | 170.7 | 4.1 | 153.9 | 1.9 | 330.6 |
| Long-term debt(1) | 743.2 | 1,396.5 | — | 20.2 | (743.2) | 1,416.7 |
| Other long-term liabilities | — | 25.9 | — | 14.9 | — | 40.8 |
| Intercompany(1) | (788.1) | (569.0) | 145.8 | 425.5 | 785.8 | — |
| Total liabilities | (44.9) | 1,024.1 | 149.9 | 614.5 | 44.5 | 1,788.1 |
| Minority interests in consolidated subsidiaries | — | — | — | — | 25.4 | 25.4 |
| Redeemable preferred stock | 114.5 | — | — | — | — | 114.5 |
| Stockholders' equity (deficit) | (750.7) | (682.9) | 3.0 | 166.5 | 513.4 | (750.7) |
| Liabilities, minority interests and stockholders' equity (deficit) | $ (681.1) | $ 341.2 | $ 152.9 | $ 781.0 | $ 583.3 | $ 1,177.3 |

Table of Contents

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

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

Table of Contents

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

| | Issuers | | | | | |
|---|---|---|---|---|---|---|
| | ON Semiconductor Corporation | SCI LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
| **For the quarter ended July 4, 2003** | | | | | | |
| Revenues | $ — | $ 125.2 | $ 36.9 | $ 333.4 | $ (239.3) | $ 256.2 |
| Cost of sales | — | 126.4 | 10.8 | 288.4 | (242.8) | 182.8 |
| Gross profit | — | (1.2) | 26.1 | 45.0 | 3.5 | 73.4 |
| Research and development | — | 1.1 | 3.4 | 12.5 | — | 17.0 |
| Selling and marketing | — | 8.7 | 0.2 | 6.7 | — | 15.6 |
| General and administrative | — | 5.6 | — | 15.5 | — | 21.1 |
| Amortization of intangible | — | — | 2.9 | — | — | 2.9 |
| Restructuring, asset impairments and other | — | 6.0 | 20.8 | 7.8 | — | 34.6 |
| Total operating expenses | — | 21.4 | 27.3 | 42.5 | — | 91.2 |
| Operating income (loss) | — | (22.6) | (1.2) | 2.5 | 3.5 | (17.8) |
| Interest expense, net | — | (25.9) | (4.7) | (7.9) | — | (38.5) |
| Equity in earnings | (57.5) | (6.3) | (2.5) | — | 66.3 | — |
| Income (loss) before income taxes and minority interests | (57.5) | (54.8) | (8.4) | (5.4) | 69.8 | (56.3) |
| Income tax provision | — | (0.9) | — | (1.4) | — | (2.3) |
| Minority interests | — | — | — | — | 1.1 | 1.1 |
| Net loss | $ (57.5) | $ (55.7) | $ (8.4) | $ (6.8) | $ 70.9 | $ (57.5) |
| **For the quarter ended June 28, 2002** | | | | | | |
| Revenues | $ — | $ 143.8 | $ 13.0 | $ 347.3 | $ (223.5) | $ 280.6 |
| Cost of sales | — | 141.6 | 14.5 | 270.8 | (228.4) | 198.5 |
| Gross profit | — | 2.2 | (1.5) | 76.5 | 4.9 | 82.1 |
| Research and development | — | 0.5 | 5.6 | 10.1 | — | 16.2 |
| Selling and marketing | — | 8.0 | 0.4 | 6.8 | — | 15.2 |
| General and administrative | — | 19.8 | (0.6) | 7.5 | — | 26.7 |
| Amortization of intangible | — | — | 3.0 | — | — | 3.0 |
| Restructuring, asset impairments and other charges | — | (0.5) | 0.5 | 3.1 | — | 3.1 |
| Total operating expenses | — | 27.8 | 8.9 | 27.5 | — | 64.2 |
| Operating income (loss) | — | (25.6) | (10.4) | 49.0 | 4.9 | 17.9 |
| Interest expense, net | — | (20.3) | (6.3) | (11.0) | — | (37.6) |
| Loss on debt prepayment and other(2) | — | (46.9) | — | 40.4 | — | (6.5) |
| Equity in earnings | (31.8) | 58.9 | 2.5 | — | (29.6) | — |
| Income (loss) before income taxes and minority interests | (31.8) | (33.9) | (14.2) | 78.4 | (24.7) | (26.2) |
| Income tax provision | — | (0.3) | — | (3.7) | — | (4.0) |
| Minority interests | — | — | — | — | (1.6) | (1.6) |
| Net income (loss) | $ (31.8) | $ (34.2) | $ (14.2) | $ 74.7 | $ (26.3) | $ (31.8) |

Table of Contents

## ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
**(unaudited)**

| | Issuers | | | | | |
|---|---|---|---|---|---|---|
| | **ON Semiconductor Corporation(3)** | **SCI LLC** | **Guarantor Subsidiaries** | **Non-Guarantor Subsidiaries** | **Eliminations** | **Total** |
| **For the six months ended July 4, 2003** | | | | | | |
| Revenues | $ — | $ 261.7 | $ 52.4 | $ 684.6 | $ (473.0) | $ 525.7 |
| Cost of sales | — | 247.2 | 22.0 | 581.4 | (472.7) | 377.9 |
| Gross profit | — | 14.5 | 30.4 | 103.2 | (0.3) | 147.8 |
| Research and development | — | 6.7 | 6.9 | 21.1 | — | 34.7 |
| Selling and marketing | — | 17.6 | 0.3 | 13.8 | — | 31.7 |
| General and administrative | — | 18.3 | — | 24.1 | — | 42.4 |
| Amortization of goodwill and other intangibles | — | — | 5.9 | — | — | 5.9 |
| Restructuring, asset impairments and other | — | 6.0 | 20.8 | 7.8 | — | 34.6 |
| Total operating expenses | — | 48.6 | 33.9 | 66.8 | — | 149.3 |
| Operating income (loss) | — | (34.1) | (3.5) | 36.4 | (0.3) | (1.5) |
| Interest expense, net | — | (50.7) | (9.6) | (16.6) | — | (76.9) |
| Loss on debt prepayment and other | — | (3.5) | — | — | — | (3.5) |
| Equity in earnings | (108.0) | 3.5 | (0.6) | — | 105.1 | — |
| Income (loss) before income taxes and minority interests | (108.0) | (84.8) | (13.7) | 19.8 | 104.8 | (81.9) |
| Income tax provision | — | (1.8) | — | (2.7) | — | (4.5) |
| Minority interests | — | — | — | — | (0.1) | (0.1) |
| Loss before cumulative effect of accounting change | (108.0) | (86.6) | (13.7) | 17.1 | 104.7 | (86.5) |
| Cumulative effect of accounting change | — | (21.5) | — | — | — | (21.5) |
| Net loss | $ (108.0) | $ (108.1) | $ (13.7) | $ 17.1 | $ 104.7 | $ (108.0) |
| Net cash provided by (used in) operating activities | — | (13.8) | 4.7 | 25.8 | (0.0) | 16.7 |
| Cash flows from investing activities: | | | | | | |
| Purchases of property, plant and equipment | — | (7.5) | (4.6) | (12.5) | — | (24.6) |
| Equity injections from Parent | — | (1.7) | — | — | 1.7 | — |
| Acquisition of minority interest | — | — | (1.8) | — | — | (1.8) |
| Proceeds from sales of property, plant and equipment | — | — | — | — | — | — |
| Net cash used in investing activities | — | (9.2) | (6.4) | (12.5) | 1.7 | (26.4) |
| Cash flows from financing activities: | | | | | | |
| Intercompany loans | — | (166.9) | — | 166.9 | — | — |
| Intercompany loan repayments | — | 174.0 | — | (174.0) | — | — |
| Proceeds from debt issuance, net of discount | — | 190.9 | — | — | — | 190.9 |
| Payment of debt issuance costs | — | (10.6) | — | — | — | (10.6) |
| Repayment of long term debt | — | (180.9) | — | — | — | (180.9) |
| Equity injections from Parent | — | — | 1.7 | — | (1.7) | — |
| Proceeds from issuance of common stock under the employee stock purchase plan | — | 0.7 | — | — | — | 0.7 |
| Net cash provided (used in) by financing activities | — | 7.2 | 1.7 | (7.1) | (1.7) | 0.1 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | 0.4 | — | 0.4 |
| Net increase in cash and cash equivalents | — | (15.8) | — | 6.6 | — | (9.2) |
| Cash and cash equivalents, beginning of period | — | 121.5 | — | 68.9 | — | 190.4 |
| Cash and cash equivalents, end of period | $ — | $ 105.7 | $ — | $ 75.5 | $ — | $ 181.2 |

Table of Contents

## ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
**(unaudited)**

| | Issuers | | | | | |
|---|---|---|---|---|---|---|
| | ON Semiconductor Corporation(3) | SCI LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
| **For the six months ended June 28, 2002** | | | | | | |
| Revenues | $ — | $ 271.4 | $ 33.7 | $ 674.8 | $ (428.3) | $ 551.6 |
| Cost of sales | — | 274.4 | 29.9 | 540.0 | (436.7) | 407.6 |
| Gross profit | — | (3.0) | 3.8 | 134.8 | 8.4 | 144.0 |
| Research and development | — | 10.8 | 6.8 | 15.9 | — | 33.5 |
| Selling and marketing | — | 15.4 | 0.9 | 13.5 | — | 29.8 |
| General and administrative | — | 36.4 | (0.6) | 20.1 | — | 55.9 |
| Amortization of intangible | — | — | 6.0 | — | — | 6.0 |
| Restructuring, asset impairments and other | — | 6.6 | 0.5 | 3.1 | — | 10.2 |
| Total operating expenses | — | 69.2 | 13.6 | 52.6 | — | 135.4 |
| Operating income (loss) | — | (72.2) | (9.8) | 82.2 | 8.4 | 8.6 |
| Interest expense, net | — | (39.4) | (11.0) | (23.2) | — | (73.6) |
| Loss on debt prepayment and other(2) | — | (46.9) | — | 40.4 | — | (6.5) |
| Equity earnings | (81.8) | 100.4 | 2.0 | — | (20.6) | — |
| Income (loss) before income taxes and minority interests | (81.8) | (58.1) | (18.8) | 99.4 | (12.2) | (71.5) |
| Income tax provision | — | (2.0) | — | (6.1) | — | (8.1) |
| Minority interests | — | — | — | — | (2.2) | (2.2) |
| Net income (loss) | $ (81.8) | $ (60.1) | $ (18.8) | $ 93.3 | $ (14.4) | $ (81.8) |
| Net cash provided by (used in) operating activities | $ — | $ (151.8) | $ 0.1 | $ 164.2 | $ — | $ 12.5 |
| Cash flows from investing activities: | | | | | | |
| Purchases of property, plant and equipment | — | (3.2) | (0.2) | (24.4) | — | (27.8) |
| Proceeds from sales of property, plant and equipment | — | 0.9 | — | 1.6 | — | 2.5 |
| Net cash used in investing activities | — | (2.3) | (0.2) | (22.8) | — | (25.3) |
| Cash flows from financing activities: | | | | | | |
| Intercompany loans | — | (137.6) | — | 137.6 | — | — |
| Intercompany loan repayments | — | 250.7 | — | (250.7) | — | — |
| Proceed from debt issuance, net of closing costs and discount | — | 279.3 | — | — | — | 279.3 |
| Payments on capital lease obligation | — | (1.1) | — | — | — | (1.1) |
| Repayment of long term debt | — | (283.3) | — | — | — | (283.3) |
| Proceeds from exercise of stock options and issuance of common stock under the employee stock purchase plan | — | 1.9 | — | — | — | 1.9 |
| Net cash provided by financing activities | — | 109.9 | — | (113.1) | — | (3.2) |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | 0.9 | — | 0.9 |
| Net increase (decrease) in cash and cash equivalents | — | (44.2) | (0.1) | 29.2 | — | (15.1) |
| Cash and cash equivalents, beginning of period | — | 124.9 | 0.1 | 61.0 | — | 186.0 |
| Cash and cash equivalents, end of period | $ — | $ 80.7 | $ (0.0) | $ 90.2 | $ — | $ 170.9 |

(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.

ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

**Note 8: Commitments and Contingencies**

***Other Contingencies***

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

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

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

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

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

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

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

***Legal Matters***

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

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

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

In June 2003, upon the determination of a special independent committee of the 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

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

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 insurers of 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 their initial public offerings.

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

**Note 9: Related Party Transactions**

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

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 4, 2003 | June 28, 2002 | July 4, 2003 | June 28, 2002 |
| **Cash paid for:** | | | | |
| Purchases of manufacturing services from Motorola | $ 2.0 | $ 4.3 | $ 3.9 | $ 7.5 |
| Cost of other services, rent and equipment purchased from Motorola | $ — | $ 0.4 | $ 0.4 | $ 0.9 |
| **Cash received for:** | | | | |
| Freight sharing agreement with Motorola | $ — | $ 8.1 | $ — | $ 13.8 |
| Rental of property and equipment to Motorola | $ 2.2 | $ 2.2 | $ 4.4 | $ 4.7 |
| Product sales to Motorola | $18.7 | $ 23.0 | $34.1 | $ 47.1 |

**Note 10: Recent Accounting Pronouncements**

In April 2002, the FASB issued SFAS No. 145, "Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections as of April 2002." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements" and excludes extraordinary item treatment for gains and losses associated with the extinguishment of debt that do not meet the Accounting Principles Board ("APB")

**ON SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**
**(unaudited)**

Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" criteria. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods that does not meet the criteria in APB No. 30 for classification as an extraordinary item is required to be reclassified. SFAS No. 145 also amends FASB Statement No. 13, "Accounting for Leases" and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company adopted SFAS No. 145 effective January 1, 2003, which required the reclassification within the consolidated statement of operations and comprehensive loss of losses on debt prepayments previously classified as extraordinary items which totaled $6.5 million for the quarter of six months ended June 28, 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost as defined in EITF No. 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated by the Company after December 31, 2002. The Company applied the provisions of SFAS No. 146 to its 2003 restructuring activities described in Note 5 "Restructuring, Asset Impairments and Other".

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

In November 2002, the FASB issued Interpretation No. 45 ("FIN No. 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified. The disclosure requirements are effective immediately and such disclosures have been included in Note 4 "Balance Sheet Information" and Note 8 "Commitments and Contingencies." The adoption of FIN No. 45 did not have a material effect on 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 Company is currently evaluating the impact that this pronouncement will have on its financial condition and results of operations.

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

[Table of Contents]

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

*You should read the following discussion in conjunction with our consolidated financial statements and related notes thereto as of and for the year ended December 31, 2002 included in our Annual Report on Form 10-K filed with the SEC on March 25, 2003. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to certain factors, including those discussed below and elsewhere in this Form 10-Q.*

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

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 wireless communications, consumer electronics, automotive and industrial electronics and computing 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 "building block" components that deliver system level functionality and design solutions. Our product portfolio currently comprises approximately 15,000 products and we shipped approximately 21.1 billion units in 2002. 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: leading original equipment manufacturers in a broad variety of industries, such as Alcatel, DaimlerChrysler, Delphi, Delta Electronics, Intel, Motorola, Nokia, Siemens, Sony and Visteon; electronic manufacturing service providers, such as Flextronics, Sanmina-SCI and Solectron; and global distributors, such as Arrow, Avnet and Future Electronics.

We have design operations in Arizona, Rhode Island, China, Hong Kong, the Czech Republic and France, and we operate manufacturing facilities in Arizona, Rhode Island, China, the Czech Republic, Japan, Malaysia, the Philippines and Slovakia.

Table of Contents

The following table of contents sets forth the components of management's discussion and analysis contained herein:


| | Page |
|---|---|
| Summary of Recent Developments | 29 |
| ON Financial Performance | 29 |
| Revenues | 29 |
| Profitability Enhancement Programs | 29 |
| Pre-2003 Restructuring Programs | 29 |
| June 2003 Restructuring Programs and Other | 30 |
| Outlook | 30 |
| Liquidity and Capital Structure—Cash Position and Capital Expenditures | 30 |
| Accounting Changes | 31 |
| Consolidation of Leshan-Phoenix Semiconductor | 31 |
| Actuarial Gains or Losses | 31 |
| Reclassification of Loss on Debt Prepayment | 31 |
| Critical Accounting Policies | 31 |
| Results of Operations | 33 |
| Quarter Ended July 4, 2003 Compared to Quarter Ended June 28, 2002 | 33 |
| Six Months Ended July 4, 2003 Compared to Six Months Ended June 28, 2002 | 36 |
| Liquidity and Capital Resources | 39 |
| Sources and Uses of Cash | 39 |
| Analysis of Cash Flows | 41 |
| EBITDA | 43 |
| Commercial Commitments and Contractual Obligations | 44 |
| Off-Balance Sheet Arrangements | 45 |
| Recent Accounting Pronouncements | 46 |
| Trends, Risks and Uncertainties | 47 |

**Summary of Recent Developments**

***ON Financial Performance***

*Revenues*

The following table sets forth our total revenues for the last six quarters:

| Quarter Ended(1) | Revenues | % Change from prior quarter |
|---|---|---|
| | (in millions) | |
| March 29, 2002 | $ 271.0 | |
| June 28, 2002 | $ 280.6 | 3.5% |
| September 27, 2002 | $ 274.0 | (2.4%) |
| December 31, 2002 | $ 268.5 | (2.0%) |
| April 4, 2003 | $ 269.5 | 0.4% |
| July 4, 2003 | $ 256.2 | (4.9%) |

(1) Because our fiscal quarters are determined based on 13 calendar weeks ending on a Friday, except for the fourth quarter which ends on December 31, certain quarters may have more or fewer days than other quarters which may have a slight impact on the comparability of results.

While revenues have been relatively stable over the previous five quarters, revenues for the second quarter of 2003 decreased 4.9% as compared to the first quarter of 2003 and declined 8.7% as compared to the second quarter of 2002. Pricing pressures have led to continuing declines in average selling prices, and weakness in the automotive and wireless markets further contributed to the revenue decline in the second quarter of 2003.

*Profitability Enhancement Programs*

*Pre-2003 Restructuring Programs*

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

The elements of the 2000 plan that we commenced in June 2001 were completed in the fourth quarter of 2002 and resulted in $365 million of annualized cost savings, based on a comparison of our cost structure during the first quarter of 2001 to our cost structure during the third quarter of 2002. We expect the 2002 plan to be completed by the end of 2003 and to result in an estimated $80 million of cost savings in 2003 and an estimated $125 million of annual cost savings thereafter, in both cases as compared to our cost structure during the third quarter of 2002. Savings from these plans include reduced employee costs resulting from staff reductions, reduced depreciation expense resulting from asset impairments and other cost savings resulting from the transfer of certain manufacturing and administrative functions to lower cost regions, renegotiation of service and supply contracts, and other actions taken to improve our manufacturing efficiency. As of July 4, 2003, actual savings in 2003 for the 2002 plan were approximately $38 million and we are on track to achieve our targeted savings of $80 million by the end of 2003.

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

| | Reduced Employee Costs | Other Cost Savings | Total |
|---|---|---|---|
| Cost of sales | $ 19 | $ 93 | $112 |
| Sales and marketing | 4 | — | 4 |
| General and administrative | 7 | 2 | 9 |
| | $ 30 | $ 95 | $125 |

*June 2003 Restructuring, Asset Impairments and Other Charges*

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

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

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

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

In the second quarter of 2003 we also recorded non-cash impairment charges totaling $21.3 million including $20.8 million relating to the write-off of the developed technology intangible asset associated with the April 2002 purchase of Cherry Semiconductor Corporation and a $0.5 million write off of a cost basis investment. Sustained price declines in certain product lines triggered an impairment analysis of the carrying value of the developed technology and resulted in us recording an impairment charge of $20.8 million. We measured the amount of the impairment charge by comparing the carrying value of the developed technology to its estimated fair value. We estimated future net cash flows associated with the developed technology using price, volume and cost assumptions that management considered to be reasonable in the circumstances. We will no longer incur amortization expense of approximately $3.0 million per quarter related to this intangible asset. As a result of the impairment of the developed technology, we evaluated the recoverability of the related goodwill that arose in connection with the acquisition of Cherry Semiconductor Corporation. We determined that the estimated fair value of the reporting unit containing the goodwill exceeded its related carrying amount. Accordingly, the goodwill was not considered to be impaired.

*Outlook*

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

***Liquidity and Capital Structure—Cash Position and Capital Expenditures***

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

Our manufacturing rationalization plans have included efforts to efficiently utilize our existing manufacturing assets and supply arrangements. 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 are expected to be between $50 and $60 million in 2003. In the first half of 2003, our capital expenditures totaled $24.6 million.

***Accounting Changes***

*Consolidation of Leshan-Phoenix Semiconductor*

In the second quarter of 2003, we 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. We determined that our investment in Leshan-Phoenix Semiconductor (“Leshan”) meets the definition of a VIE as its economic interest in Leshan is proportionately greater than our ownership interest and, therefore, the investment in Leshan should be consolidated under FIN No. 46. We had previously accounted for our investment in Leshan using the equity method as we do not have effective control over Leshan. While consolidation of the our investment in Leshan did not impact our 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.

*Actuarial Gains or Losses*

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

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

*Reclassification of Loss on Debt Prepayment*

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

**Critical Accounting Policies**

The accompanying discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles

generally accepted in the United States of America. We believe certain of our accounting policies are critical to understanding our financial position and results of operations. We utilize the following critical accounting policies in the preparation of our financial statements.

*Revenue.* We generate revenue from sales of our semiconductor products to original equipment manufacturers, electronic manufacturing service providers, and distributors. We recognize revenue on sales to original equipment manufacturers and electronic manufacturing service providers when title passes to the customer net of provisions for related sales returns and allowances. For distributor sales, the related revenues are deferred until the distributor resells the product to the end user. Title to products sold to distributors typically passes at the time of shipment by us so we record accounts receivable for the amount of the transaction, reduce our inventory for the products shipped and defer the related margin in our consolidated balance sheet. We recognize the related revenue and profit when the distributor sells the products to the end user. Although payment terms vary, most distributor agreements require payment within 30 days. Our revenue recognition method for distributor sales aligns our reported results with, focuses us on, and enables investors to better understand, end user demand for the products we sell through distribution as our revenue is not influenced by our distributors' stocking decisions.

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

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

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

*Goodwill.* We evaluate our goodwill for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential

impairment, compares the estimated fair value of the reporting unit containing our goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

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

**Results of Operations**

***Quarter Ended July 4, 2003 Compared to Quarter Ended June 28, 2002***

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements. The dollar amounts in the following table are in millions.

| | Quarter Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 4, 2003 | % of Revenues(1) | June 28, 2002 | % of Revenues(1) | Change | % Change |
| Revenues | $ 256.2 | 100.0 | $ 280.6 | 100.0 | $ (24.4) | (8.7) |
| Cost of sales | 182.8 | 71.4 | 198.5 | 70.7 | (15.7) | (7.9) |
| Gross profit | 73.4 | 28.7 | 82.1 | 29.3 | (8.7) | (10.6) |
| Operating expenses: | | | | | | |
| Research and development | 17.0 | 6.6 | 16.2 | 5.8 | 0.8 | 4.9 |
| Selling and marketing | 15.6 | 6.1 | 15.2 | 5.4 | 0.4 | 2.6 |
| General and administrative | 21.1 | 8.2 | 26.7 | 9.5 | (5.6) | (21.0) |
| Amortization of intangible | 2.9 | 1.1 | 3.0 | 1.1 | (0.1) | (3.3) |
| Restructuring, asset impairments and other | 34.6 | 13.5 | 3.1 | 1.1 | 31.5 | NM |
| Total operating expenses | 91.2 | 35.6 | 64.2 | 22.9 | 27.0 | 42.1 |
| Operating income (loss) | (17.8) | (6.9) | 17.9 | 6.4 | (35.7) | (199.4) |
| Other income (expenses), net: | | | | | | |
| Interest expense | (38.5) | (15.0) | (37.6) | (13.4) | 0.9 | 2.4 |
| Loss on debt prepayment | — | — | (6.5) | (2.3) | (6.5) | (100.0) |
| Other income (expenses), net | (38.5) | (15.0) | (44.1) | (15.7) | 5.6 | (12.7) |
| Loss before income taxes and minority interests | (56.3) | (22.0) | (26.2) | (9.3) | (30.1) | 114.9 |
| Income tax provision | (2.3) | (0.9) | (4.0) | (1.4) | 1.7 | (42.5) |
| Minority interests | 1.1 | 0.4 | (1.6) | (0.6) | 2.7 | (168.8) |
| Net loss | (57.5) | (22.4) | (31.8) | (11.3) | (25.7) | 80.8 |
| Less: Redeemable preferred stock dividends | (2.2) | (0.9) | (2.1) | (0.7) | (0.1) | 4.8 |
| Net loss applicable to common stock | $ (59.7) | (23.3) | $ (33.9) | (12.1) | $ (25.8) | 76.1 |

(1) Certain amounts may not total due to rounding of individual components.
NM Figures are not meaningful for analysis

*Revenues.* Revenues decreased $24.4 million, or 8.7%, to $256.2 million in the second quarter of 2003 from $280.6 million in the second quarter of 2002 due to declines in average selling prices of approximately 10% offset by volume and mix changes. The revenues by product line for the quarters ended July 4, 2003 and June 28, 2002 are as follows (dollars in millions):

| | Quarter Ended July 4, 2003 | % of Revenue | Quarter Ended June 28, 2002 | % of Revenue | Change | % Change |
|---|---|---|---|---|---|---|
| Power Management and Standard Analog | $ 81.2 | 31.7 | $ 93.4 | 33.3 | $ (12.2) | (13.1) |
| MOS Power Devices | 32.5 | 12.7 | 35.7 | 12.7 | (3.2) | (9.0) |
| High Frequency Clock and Data Management | 21.2 | 8.3 | 17.0 | 6.1 | 4.2 | 24.7 |
| Standard Components | 121.3 | 47.3 | 134.5 | 47.9 | (13.2) | (9.8) |
| Revenues | $ 256.2 | | $ 280.6 | | $ (24.4) | |

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

Approximately 32%, 49% and 19% of our revenues during the second quarter of 2003 were derived from the Americas, Asia/ Pacific and Europe (including the Middle East), respectively, compared to 38%, 44% and 18%, respectively, during the second quarter of 2002. Strength in the Asia Pacific market was fueled primarily by increased sales to China as a result of our continued focus on this fast growth market.

*Cost of Sales.* Cost of sales for the second quarter of 2003 decreased $15.7 million, or 7.9%, to $182.8 million from $198.5 million in the second quarter of 2002. This decrease is attributable to $26.4 million of cost reduction activities and improved factory utilization during the second quarter of 2003 as compared to the second quarter of 2002. These factors were partially offset by a slight increase in unit volumes and an increase in freight expense of $8.8 million in the second quarter of 2003 as compared to the second quarter of 2002 due to the expiration of the freight sharing agreement with Motorola in 2002.

*Gross Profit.* Gross profit for the second quarter of 2003 decreased $8.7 million, or 10.6%, to $73.4 million from $82.1 million in the second quarter of 2002. As a percentage of revenues, gross profit decreased to 28.7% during the second quarter of 2003 from 29.3% in the second quarter of 2002. To summarize the fluctuations described above, the decrease in gross profit was attributable to decreases in average selling prices and an increase in freight expense with the expiration of the freight sharing agreement with Motorola, offset by cost reduction activities and improved factory utilization.

*Operating expenses*

*Research and Development.* Research and development costs increased $0.8 million, or 4.9%, to $17.0 million in the second quarter of 2003 compared with $16.2 million in the second quarter of 2002. As a percentage of revenues, research and development costs increased to 6.6% in the second quarter of 2003 as compared to 5.8% in 2002 as we continue to focus on new product development. The primary emphasis of our new product development efforts is in the expected high growth market applications of power management and standard analog and high frequency clock and data management solutions, with approximately 80% of our overall research and development investments focused in these areas.

*Selling and Marketing.* Selling and marketing expenses in the second quarter of 2003 increased by $0.4 million, or 2.6%, to $15.6 million compared with $15.2 million in the second quarter of 2002. The increase is attributable to a change in the commission structure for external sales representatives to reflect current market rates. As a percentage of revenues, selling and marketing expenses for the second quarter of 2003 were 6.1% compared with 5.4% in the second quarter of 2002.

*General and Administrative.* General and administrative expenses decreased by $5.6 million, or 21.0%, to $21.1 million from $26.7 million in the second quarter of 2002, as a result of personnel reductions and the relocation of certain functions to lower cost regions, reduced bonus accruals, and the discontinuation of the amortization of actuarial losses in 2003 in connection with the change in accounting for actuarial losses associated with our defined benefit pension plans. As a percentage of revenues, these costs decreased to 8.2% in the second quarter of 2003 from 9.5% in the second quarter of 2002.

*Amortization of Intangible.* Amortization of intangible asset remained consistent at $2.9 million in the second quarter of 2003 as compared to $3.0 million in the second quarter of 2002, reflecting straight-line amortization of developed technology obtained in the acquisition of Cherry Semiconductor in April 2000. Due to the previously mentioned impairment charge relating to this asset, there will be no future amortization.

*Restructuring, Asset Impairments and Other.* Restructuring, asset impairments and other charges were $34.6 million in the second quarter of 2003 as compared to $3.1 million in the second quarter of 2002. As of July 4, 2003, we have $11.1 million accrued in relation to all of our restructuring programs and expect this amount to be paid over the twelve months. We expect that the savings from these programs will more than offset the expected payments in 2003.

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

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

*Interest Expense.* Interest expense increased $0.9 million, or 2.4%, to $38.5 million for the second quarter of 2003 from $37.6 million in the second quarter of 2002. The higher interest expense was due to a slight increase in our weighted-average interest rate on long-term debt (including current maturities) and an increase in our total long-term debt outstanding. Our weighted average interest rate increased from to 10.7% per annum for the second quarter of 2003 compared to 10.6% per annum for the second quarter of 2002, computed by dividing total interest expense by our average month-end debt balances. The increases in our weighted-average interest rate and our total long-term debt are attributable to the net effect of the debt refinancings that occurred in 2002 and 2003.

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

*Income Tax Provision.* We recognized an income tax provision of $2.3 million in the second quarter of 2003 compared with $4.0 million in the second quarter of 2002 which is related to income and withholding taxes of certain of our foreign operations. The decrease in the income tax provision was due to a change in the mix of income from high-tax foreign jurisdictions to lower-tax foreign jurisdictions and recognition of certain redeemable tax credits expected in certain foreign locations.

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

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

The following table summarizes certain information relating to our operating results that has been derived from our unaudited consolidated financial statements. The dollar amounts in the following table are in millions.

| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 4, 2003 | % of Revenues(1) | June 28, 2002 | % of Revenues(1) | Change | % Change |
| Total revenues | $ 525.7 | 100.0 | $ 551.6 | 100.0 | $ (25.9) | (4.7) |
| Cost of sales | 377.9 | 71.9 | 407.6 | 73.9 | (29.7) | (7.3) |
| Gross profit | 147.8 | 28.1 | 144.0 | 26.1 | 3.8 | 2.6 |
| Operating expenses: | | | | | | |
| Research and development | 34.7 | 6.6 | 33.5 | 6.1 | 1.2 | 3.6 |
| Selling and marketing | 31.7 | 6.0 | 29.8 | 5.4 | 1.9 | 6.4 |
| General and administrative | 42.4 | 8.1 | 55.9 | 10.1 | (13.5) | (24.2) |
| Amortization of intangible | 5.9 | 1.1 | 6.0 | 1.1 | (0.1) | (1.7) |
| Restructuring, asset impairments and other | 34.6 | 6.6 | 10.2 | 1.8 | 24.4 | NM |
| Total operating expenses | 149.3 | 28.4 | 135.4 | 24.5 | 13.9 | 10.3 |
| Operating income (loss) | (1.5) | (0.3) | 8.6 | 1.6 | (10.1) | (117.4) |
| Other income (expenses), net: | | | | | | |
| Interest expense | (76.9) | (14.6) | (73.6) | (13.3) | 3.3 | 4.5 |
| Loss on debt prepayment | (3.5) | (0.7) | (6.5) | (1.2) | (3.0) | (46.2) |
| Other income (expenses), net | (80.4) | (15.3) | (80.1) | (14.5) | (0.3) | 0.4 |
| Loss before income taxes and minority interests | (81.9) | (15.6) | (71.5) | (13.0) | (10.4) | (14.5) |
| Income tax provision | (4.5) | (0.9) | (8.1) | (1.5) | 3.6 | (44.4) |
| Minority interests | (0.1) | (0.0) | (2.2) | (0.4) | 2.1 | (95.5) |
| Net loss before extraordinary loss and cumulative effect of accounting change | (86.5) | (16.5) | (81.8) | (14.8) | (4.7) | 5.7 |
| Cumulative effect of accounting change | (21.5) | (4.1) | — | — | (21.5) | NM |
| Net loss | (108.0) | (20.5) | (81.8) | (14.8) | (26.2) | 32.0 |
| Less: Redeemable preferred stock dividends | (4.4) | (0.8) | (4.2) | (0.8) | (0.2) | 4.8 |
| Net loss applicable to common stock | (112.4) | (21.4) | (86.0) | (15.6) | (26.4) | 30.7 |

(1) Certain amounts may not total due to rounding of individual components.
NM Figures are not meaningful for analysis

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

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

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

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

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

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

*Operating expenses*

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

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

of revenues, selling and marketing expenses for the first six months of 2003 were 6.0% compared with 5.4% in the first six months of 2002.

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

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

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

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

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

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

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

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

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

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

**Liquidity and Capital Resources**

This section discusses:

1) Sources and uses of cash, and significant factors that influence both;
2) Our analysis of our cash flows for the second quarter of 2003; and
3) Our commitments and contractual obligations.

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

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

***Sources and Uses of Cash***

We require cash to fund our operating expenses, including working capital requirements and outlays for research and development, to make capital expenditures, strategic acquisitions and investments, and to pay debt service, including principal and interest and lease payments. Our principal sources of liquidity are cash on hand, cash generated from operations, and funds from external borrowings and equity issuances. In the near term, we expect to fund our primary cash requirements through cash generated from operations, cash and cash equivalents

on hand, and targeted asset sales, including our Guadalajara, Mexico site, which is currently held for sale. Additionally, as part of our business strategy, we review acquisition and divestiture opportunities and proposals on a regular basis.

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

- factors that affect our results of operations and cash flows, including reduced demand for our products resulting from the recent economic slowdown and actions taken by our customers to manage their inventories in line with incoming business, competitive pricing pressures, under-utilization of our manufacturing capacity, our ability to achieve further reductions in operating expenses, the impact of our restructuring program on our productivity, and our ability to make the research and development expenditures required to remain competitive in our business; and
- factors that affect our access to bank financing and the debt and equity capital markets that could impair our ability to obtain needed financing on acceptable terms or to respond to business opportunities and developments as they arise including interest rate fluctuations, our ability to maintain compliance with financial covenants under our existing credit facilities, other limitations imposed by our credit facilities or arising from our substantial leverage, and our move to the Nasdaq SmallCap Market on October 25, 2002.

Our ability to service our long-term debt, to remain in compliance with the various covenants and restrictions contained in our credit agreements and to fund working capital, capital expenditures and business development efforts will depend on our ability to generate cash from operating activities which is subject to, among other things, our future operating performance as well as to general economic, financial, competitive, legislative, regulatory and other conditions, some of which may beyond our control. As of July 4, 2003, $10.2 million of our $62.5 million revolving credit facility was available, reflecting outstanding loans of $37.5 million and outstanding letters of credit of $14.8 million. As of January 9, 2003, we amended our primary foreign exchange hedging agreement to provide for termination if at anytime the amount available under our revolving credit facility is less than $2.5 million.

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

See “Part I, Item 3. Quantitative and Qualitative Disclosures about Market Risk” for a discussion of our use of derivative financial instruments.

Table of Contents

*Analysis of Cash Flows*

Cash flow information for the quarters ended July 4, 2003 and April 4, 2003 and six months ended July 4, 2003 and June 28, 2002 is as follows (in millions):

| | Quarter ended July 4, 2003 | Quarter ended April 4, 2003 | Six months ended July 4, 2003 | Six months ended June 28, 2002 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Cash flows from operating activities: | | | | |
| Net loss | $ (57.5) | $ (50.5) | $ (108.0) | $ (81.8) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 36.6 | 36.0 | 72.6 | 74.1 |
| Loss on debt prepayment | — | 3.5 | 3.5 | 6.5 |
| Amortization of debt issuance costs and debt discount | 2.4 | 2.2 | 4.6 | 3.6 |
| Provision for excess inventories | 2.3 | 4.0 | 6.3 | 14.7 |
| Cumulative effect of accounting change | — | 21.5 | 21.5 | — |
| Non-cash impairment write-down of property, plant and equipment | 10.5 | — | 10.5 | 8.4 |
| Non-cash interest on junior subordinated note payable to Motorola | 3.2 | 3.3 | 6.5 | 5.6 |
| Non-cash write down of intangible asset | 20.8 | — | 20.8 | — |
| Deferred income taxes | — | (2.5) | (2.5) | 4.6 |
| Stock compensation expense | — | 0.1 | 0.1 | 1.3 |
| Other | 1.3 | 1.9 | 3.2 | 3.0 |
| Changes in assets and liabilities: | | | | |
| Receivables | (0.7) | (12.0) | (12.7) | (2.3) |
| Inventories | (7.4) | (11.0) | (18.4) | 7.2 |
| Other assets | (3.5) | 7.6 | 4.1 | — |
| Accounts payable | 5.3 | 33.6 | 38.9 | (15.4) |
| Accrued expenses | (0.7) | (15.3) | (16.0) | (10.9) |
| Income taxes payable | 2.0 | 3.8 | 5.8 | (2.7) |
| Accrued interest | 5.1 | (20.8) | (15.7) | 16.5 |
| Deferred income on sales to distributors | (3.9) | (2.6) | (6.5) | (24.1) |
| Other long-term liabilities | (3.7) | 1.8 | (1.9) | 4.2 |
| Net cash provided by operating activities | 12.1 | 4.6 | 16.7 | 12.5 |
| Cash flows from investing activities: | | | | |
| Purchases of property, plant and equipment | (18.4) | (6.2) | (24.6) | (27.8) |
| Acquisition of minority interests in consolidated subsidiaries | (1.8) | — | (1.8) | — |
| Proceeds from sales of property, plant and equipment | — | — | — | 2.5 |
| Net cash used in investing activities | (20.2) | (6.2) | (26.4) | (25.3) |
| Cash flows from financing activities: | | | | |
| Proceeds from debt issuance, net of discount | — | 190.9 | 190.9 | 290.7 |
| Proceeds from issuance of common stock under the employee stock purchase plan | 0.2 | 0.2 | 0.4 | 1.2 |
| Proceeds from stock option exercises | 0.3 | — | 0.3 | 0.7 |
| Payment of capital lease obligation | — | (9.3) | — | (1.1) |
| Payment of debt issuance costs | (1.3) | — | (10.6) | (11.4) |
| Repayment of long-term debt | — | (180.9) | (180.9) | (283.3) |
| Net cash provided by (used in) financing activities | (0.8) | 0.9 | 0.1 | (3.2) |
| Effect of exchange rate changes on cash and cash equivalents | 0.1 | 0.3 | 0.4 | 0.9 |
| Net increase (decrease) in cash and cash equivalents | (8.8) | (0.4) | (9.2) | (15.1) |
| Cash and cash equivalents, beginning of period | 190.0 | 190.4 | 190.4 | 186.0 |
| Cash and cash equivalents, end of period | $ 181.2 | $ 190.0 | $ 181.2 | $ 170.9 |

***Cash Flow Activity for the First and Second Quarters of 2003***

For the quarters ended July 4, 2003 and April 4, 2003, our cash balance decreased by $8.8 million and $0.4 million, respectively. The quarter ended July 4, 2003, as compared to the quarter ended April 4, 2003, shows an improvement in net cash provided by operating activities of $7.5 million, an increase in the net cash used in investing activities of $14.0 million, and an increase of $1.7 million net cash used in financing activities.

We generated $12.1 million in net cash provided by operating activities during the second quarter of 2003 compared with $4.6 million generated in the first quarter of 2003. The increase in net cash provided by operating activities is, in part, attributable to lower interest payments in the second quarter of 2003 as compared to the first quarter of 2003, when $26.9 million of supplemental interest charges were paid. This increase offset by other changes in net working capital.

We used $20.2 million in investing activities in the second quarter of 2003 as compared to $6.2 million in the first quarter of 2003, primarily driven by an increase in capital expenditures to $18.4 million in the second quarter of 2003 from $6.2 million in the first quarter of 2003. Despite this increase, our need for incremental property, plant or equipment has been significantly reduced given the current level of business. Furthermore, our senior bank facilities restrict the amount of capital equipment we can purchase within certain periods.

Financing activities during the second quarter of 2003 resulted in a net cash outflow of $0.8 million compared to a net cash inflow of $0.9 million in the first quarter of 2003. During the second quarter of 2003, our financing activities consisted of the payment of debt issuance costs in connection with our debt refinancing that occurred in the first quarter of 2003 and proceeds received from stock option exercises and the issuance of common stock under our employee stock purchase plan. During the first quarter of 2003, we refinanced a portion of our long term debt by issuing $200.0 million of senior secured notes and used the net cash proceeds of $180.9 million (net of discount and issuance costs) to prepay a portion of our senior bank facilities, including $25.0 million used to repay borrowings under our revolving credit facility and permanently reduce the commitments thereunder by such amount.

***Cash Flow Activity for the First Six Months of 2003 and 2002***

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

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

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

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

***EBITDA***

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

| | Quarter Ended | | | Six Months Ended | |
|---|---|---|---|---|---|
| | July 4, 2003 | April 4, 2003 | June 28, 2002 | July 4, 2003 | June 28, 2002 |
| Net loss | $ (57.5) | $ (50.5) | $ (31.8) | $ (108.0) | $ (81.8) |
| Plus: | | | | | |
| Depreciation and amortization | 36.6 | 36.0 | 36.7 | 72.6 | 74.1 |
| Interest expense, net of interest income | 38.5 | 38.4 | 37.6 | 76.9 | 73.6 |
| Income tax provision | 2.3 | 2.2 | 4.0 | 4.5 | 8.1 |
| EBITDA | 19.9 | 26.1 | 46.5 | 46.0 | 74.0 |
| Increase (decrease): | | | | | |
| Interest expense, net of interest income | (38.5) | (38.4) | (37.6) | (76.9) | (73.6) |
| Income tax provision | (2.3) | (2.2) | (4.0) | (4.5) | (8.1) |
| Loss on debt prepayment | — | 3.5 | 6.5 | 3.5 | 6.5 |
| Amortization of debt issuance costs and debt discount | 2.4 | 2.2 | 2.0 | 4.6 | 3.6 |
| Provision for excess inventories | 2.3 | 4.0 | 4.0 | 6.3 | 14.7 |
| Cumulative effect of accounting change | — | 21.5 | — | 21.5 | — |
| Non-cash impairment write-down of property, plant and equipment | 10.5 | — | 8.4 | 10.5 | 8.4 |
| Non-cash interest on junior subordinated note payable to Motorola | 3.2 | 3.3 | 2.9 | 6.5 | 5.6 |
| Non-cash impairment write down of other long-lived assets | 21.3 | — | — | 21.3 | — |
| Deferred income taxes | — | (2.5) | 3.9 | (2.5) | 4.6 |
| Stock compensation expense | — | 0.1 | 1.0 | 0.1 | 1.3 |
| Other | 0.8 | 1.9 | 2.4 | 2.7 | 3.0 |
| Changes in operating assets and liabilities | (7.5) | (14.9) | (4.7) | (22.4) | (27.5) |
| Net cash provided by operating activities | $ 12.1 | $ 4.6 | $ 31.3 | $ 16.7 | $ 12.5 |

***Commercial Commitments and Contractual Obligations***

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

**Amount of Commitment by Expiration Period**

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

**Payments Due by Period**

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

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

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

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

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

Our other long-term commitments consist of the minimum funding requirements relating to our U.S. and foreign pension plans. (See Note 14 "Employee Benefit Plans" of the notes to our 10-K filed with the SEC on March 25, 2003.) In regards to the U.S. pension plan, we reevaluated our current actuarial assumptions in light of the actual returns experienced, current annuity rates and the expected termination of the U.S. pension plan as of December 31, 2004 with the subsequent payment of benefits in 2005. We expect pension expense to be approximately $6 million over the remaining life of the plan with a related cash funding requirement of $32 million. Upon the termination of the U.S. pension plan, we are under an obligation to ensure that the plan has assets sufficient to pay accrued benefits.

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

***Off-Balance Sheet Arrangements***

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

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

We provide for indemnification of directors, officers and other persons in accordance with limited liability 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 predict the maximum potential amount of future payments due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under any of these indemnities have not had a material effect on our business, financial condition, results of operations or cash flows. Additionally, we do not believe that any amounts that we may be required to pay under these indemnities in the future will be material to our business, financial condition, results of operations or cash flows.

**Recent Accounting Pronouncements**

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

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

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

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

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

**Trends, Risks and Uncertainties**

This Quarterly Report on Form 10-Q includes “forward-looking statements,” as that term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included or incorporated in this Form 10-Q are forward-looking statements, particularly statements about our plans, strategies and prospects under the 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. In this Form 10-Q, forward-looking information relates to the third quarter 2003 revenues, gross margins, cost reductions, pricing pressures, 2003 capital expenditures, lack of positive earnings per share in the fourth quarter of 2003 and similar matters for the quarter and the year. All forward-looking statements in this Form 10-Q are made based on our current expectations and estimates, which involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in forward-looking statements. Among these factors are 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, our transfer to the Nasdaq SmallCap Market (including impairment of the marketability and liquidity of our common stock, the impairment of our ability to raise capital and other risks associated with trading on the Nasdaq SmallCap Market), 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 our Form 10-K for the fiscal year ended December 31, 2002 under the caption “Trends, Risks and Uncertainties” and similar disclosures in subsequently filed reports with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information.

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

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

At July 4, 2003, our long-term debt (including current maturities) totaled $1,441.6 million. We have no interest rate exposure to rate changes on our fixed rate debt, which totaled $900.9 million. We do have interest rate exposure with respect to the $520.7 million outstanding balance on our senior bank facilities and our $20.0 million loan facility with a Chinese bank due to their variable interest rate pricing; however, from time to time,

we have entered into interest rate swaps and an interest rate cap to reduce this exposure. As of July 4, 2003, we had two interest rate swaps covering $155.0 million of our variable interest rate debt. A 50 basis point increase in interest rates would not materially change our expected annual interest expense of approximately $150 million 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 4. Controls and Procedures*

(a) As of the end of the quarter ended July 4, 2003, management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 or 15d-15. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) There have been no changes in our internal controls over financial reporting during this quarter that materially affected, or are reasonably likely to materially affect, our controls.

## PART II: OTHER INFORMATION

### *Item 1. Legal Proceedings*

We currently are involved in a variety of legal matters that arose in the normal course of business. Based on information currently available, management does not believe that the ultimate resolution of these matters, including the matters described in the next paragraphs, will have a material adverse effect on 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, certain of our former officers, a current and former director of the Company, 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 along with the cases against us have all been transferred 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 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 current and former officers and 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 insurers of 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 their initial public offerings.

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

***Item 2. Changes in Securities and Use of Proceeds***

Not Applicable.

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

Not Applicable.

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

Set forth below is information concerning each matter submitted to a vote at our 2003 Annual Meeting of Stockholders held on May 21, 2002.

*Election of Directors.* Each of the following three persons was elected as a Class III Director, to hold office for a three-year term expiring at the 2006 Annual Meeting or until his successor has been duly elected and qualified, or until the earlier of his resignation, removal or disqualification:

| Nominee | For | Withheld |
|---|---|---|
| Curtis J. Crawford | 168,556,749 | 198,625 |
| Richard W. Boyce | 167,859,224 | 896,150 |
| William A. Franke | 168,565,302 | 190,072 |

*2000 Stock Incentive Plan.* A proposal to amend our 2000 Stock Incentive Plan to increase the number of shares of our common stock issuable under the plan and to increase the maximum number of shares of common stock that may be granted to any participant in one fiscal year was approved by the following votes:

| | |
|---|---|
| **For:** | 161,108,256 |
| **Against:** | 1,145,109 |
| **Abstain:** | 18,925 |

*Independent Accountants.* Appointment of PricewaterhouseCoopers LLP, as our independent accountants to audit our consolidated financial statements for 2003, was ratified by the following votes:

| | |
|---|---|
| **For:** | 167,735,095 |
| **Against:** | 1,016,592 |
| **Abstain:** | 3,687 |

***Item 5. Other Information***

*Pre-Approval of Non-Audit Related Services of PricewaterhouseCoopers LLP*

As summarized below, during the period for which this Form 10-Q is filed through the date of its filing, the Audit Committee of our Board of Directors ("Committee"), pre-approved certain non-audit related services to be provided by our independent accountants, PricewaterhouseCoopers LLP. During a meeting on July 28, 2003, the Committee pre-approved non-audit related services to be performed, consisting of tax and other services. During a meeting on August 4, 2003, the Committee pre-approved non-audit related services to be performed consisting of tax services.

***Item 6. Exhibits and Reports on Form 8-K***

(a) Exhibits—

| Exhibit No. | Description |
|---|---|
| Exhibit 10.1 | 2000 Stock Incentive Plan amended and restated as of May 21, 2003(1) |
| Exhibit 10.2 | 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)(1) |
| Exhibit 18 | Letter from PricewaterhouseCoopers LLP, re Change in Accounting Principles |
| Exhibit 31.1 | Certification Pursuant to 302 of the Sarbanes-Oxley Act of 2002 (CEO) |
| Exhibit 31.2 | Certification Pursuant to 302 of the Sarbanes-Oxley Act of 2002 (CFO) |
| Exhibit 32 | Certification Pursuant to 906 of the Sarbanes-Oxley Act of 2002 (CEO & CFO) |

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

(b) Reports on Form 8-K—

During the second quarter of 2003 we filed two reports on Form 8-K (1) dated and filed on May 1, 2003, and (2) dated June 19, 2003 and filed on June 20, 2003.

The May 1, 2003 report was filed pursuant to Items 7 and 9, reported the announcement of our consolidated financial results for the quarter ended April 4, 2003, and included as an exhibit a news release dated May 1, 2003 titled "ON Semiconductor Reports First Quarter 2003 Results." The discussion under Item 9 of this Form 8-K and the attached exhibit were provided under "Item 12. Results of Operations and Financial Condition" of the Form 8-K and were furnished to, but not filed with, the Securities and Exchange Commission.

The June 19, 2003 report was filed pursuant to Items 7 and 9, reported the announcement that we were updating our guidance for second quarter 2003 results, and included as an exhibit a news release dated June 19, 2003 titled "ON Semiconductor Updates Guidance for Second Quarter 2003 Results." The discussion under Item 9 of this Form 8-K and the attached exhibit were provided under "Item 12. Results of Operations and Financial Condition" of the Form 8-K and were furnished to, but not filed with, the Securities and Exchange Commission.

Table of Contents

**SIGNATURES**

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

| Date: August 13, 2003 | ON SEMICONDUCTOR CORPORATION |
|---|---|
| | /s/ DONALD COLVIN |
| | **By: Donald Colvin**<br>**Senior Vice President and Chief Financial Officer**<br>**(Duly Authorized Officer and Principal Financial Officer of the Registrant)** |

## EXHIBITS

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

**Exhibit 10.1**

**ON SEMICONDUCTOR CORPORATION**
**(Formerly Known as SCG Holding Corporation)**

**2000 STOCK INCENTIVE PLAN**
**(As Adopted by the Board of Directors on February 17, 2000;**
**Amended and Restated April 21, 2000;**
**Amended and Restated May 18, 2001;**
**Amended and Restated May 23, 2001**
**Amended and Restated May 21, 2003)**

## ARTICLE 1
## PURPOSE

1.1 **GENERAL**. The purpose of the SCG Holding Corporation 2000 Stock Incentive Plan (the "Plan") is to promote the success and enhance the value of SCG Holding Corporation (the "Company") by linking the personal interests of its members of the Board, employees, officers, and executives of, and consultants and advisors to, the Company to those of Company stockholders and by providing such individuals with an incentive for outstanding performance in order to generate superior returns to shareholders of the Company. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, employees, officers, and executives of, and consultants and advisors to, the Company upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

## ARTICLE 2
## EFFECTIVE DATE

2.1 **EFFECTIVE DATE**. The Plan is effective as of the date the Plan is approved by the Board (the "Effective Date"). Within 12 months of the Effective Date, the Plan must be approved by the Company's shareholders. The Plan will be deemed to be approved by the shareholders if it receives the affirmative vote of the holders of a majority of the shares of stock of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Company's Bylaws or by written consent of a majority of the Company's shareholders in lieu of a meeting. Any awards granted under the Plan prior to shareholder approval are effective when made (unless the Committee specifies otherwise at the time of grant), but no Award may be exercised or settled and no restrictions relating to any Award may lapse before the Plan is approved by the shareholders as provided above. If the shareholders fail to approve the Plan, any Award previously made shall be automatically canceled without any further act.

## ARTICLE 3
## DEFINITIONS AND CONSTRUCTION

3.1 **DEFINITIONS**. When a word or phrase appears in this Plan with the initial letter capitalized, and the word or phrase does not commence a sentence, the word or phrase shall generally be given the meaning ascribed to it in this Section or in Sections 1.1 or 2.1 unless a

clearly different meaning is required by the context. The following words and phrases shall have the following meanings:

(a) “Award” means any Option, Stock Appreciation Right, Restricted Stock Award, Performance Share Award, Performance-Based Award, or Take Ownership Grant granted to a Participant under the Plan.

(b) “Award Agreement” means any written agreement, contract, or other instrument or document evidencing an Award.

(c) “Board” means the Board of Directors of the Company.

(d) “Cause” means (except as otherwise provided in an Award Agreement) if the Committee, in its reasonable and good faith discretion, determines that the Participant (i) fails to substantially perform his duties (other than as a result of Disability), after the Board or the executive to which the Participant reports delivers to the Participant a written demand for substantial performance that specifically identifies the manner in which the Participant has not substantially performed his duties; (ii) engages in willful misconduct or gross negligence that is materially injurious to the Company or a Subsidiary; (iii) breaches his duty of loyalty to the Company or a Subsidiary; (iv) unauthorized removal from the premises of the Company or a Subsidiary of a document (of any media or form) relating to the Company or a Subsidiary or the customers of the Company or a Subsidiary; or (v) has committed a felony or a serious crime involving moral turpitude. Any rights the Company or any of its Subsidiaries may have hereunder in respect of the events giving rise to Cause shall be in addition to the rights the Company or any of its Subsidiaries may have under any other agreement with the Participant or at law or in equity. If, subsequent to a Participant’s termination of employment or services, it is discovered that such Participant’s employment or services could have been terminated for Cause, the Participant’s employment or services shall, at the election of the Board, in its sole discretion, be deemed to have been terminated for Cause retroactively to the date the events giving rise to Cause occurred.

(e) “Change of Control” shall mean the occurrence of any of the following events: (i) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or the Operating Subsidiary to any Person or group of related persons for purposes of Section 13(d) of the Exchange Act (a “Group”), together with any affiliates thereof other than TPG Semiconductor Holdings LLC, TPG Partners II, L.P., or any of their affiliates (hereafter collectively referred to as “TPG”); (ii) the approval by the holders of Stock and the consummation of any plan or proposal for the liquidation or dissolution of the Company; (iii) (A) any Person or Group (other than TPG) shall become the beneficial owner, directly or indirectly, of shares representing more than 25% of the aggregate voting power of the issued and outstanding stock entitled to vote in the election of directors (the “Voting Stock”) of the Company and such Person or Group has the power and authority to vote such shares and (B) TPG beneficially owns (within the meaning of Section 13(d) of the Exchange Act), directly or indirectly, in the aggregate a lesser percentage of the Voting Stock of the Company than such other Person or Group; (iv) the actual replacement of a majority of the Board over a two-year period from the individual directors who constituted the Board at the beginning of such period, and such replacement shall not have been approved by a

vote of at least a majority of the Board then still in office who either were members of such Board at the beginning of such period or whose election as a member of such Board was previously so approved or who were nominated by, or designees of, TPG; (v) any Person or Group other than TPG shall have acquired shares of Voting Stock of the Company such that such Person or Group has the power and authority to elect a majority of the members of the Board of Directors of the Company; or (vi) the consummation of a merger or consolidation of the Company with another entity in which holders of the Stock immediately prior to the consummation of the transaction hold, directly or indirectly, immediately following the consummation of the transaction, 50% or less of the common equity interest in the surviving corporation in such transaction. Notwithstanding the foregoing, in no event shall a Change of Control be deemed to have occurred as a result of an initial public offering of the Stock.

(f) “Code” means the Internal Revenue Code of 1986, as amended.

(g) “Committee” means the committee of the Board described in Article 4.

(h) “Covered Employee” means an Employee who is a “covered employee” within the meaning of Section 162(m) of the Code.

(i) “Disability” shall mean (unless otherwise defined in an employment agreement between the Company or any of its Subsidiaries and the Participant or in the Participant’s Award Agreement) any illness or other physical or mental condition of a Participant which renders the Participant incapable of performing his customary and usual duties for the Company, or any medically determinable illness or other physical or mental condition resulting from a bodily injury, disease or mental disorder which in the judgment of the Committee is permanent and continuous in nature. The Committee may require such medical or other evidence as it deems necessary to judge the nature and permanency of the Participant’s condition.

(j) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(k) “Fair Market Value” means, as of any given date, the fair market value of Stock on a particular date determined by such methods or procedures as may be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Stock as of any date shall be the closing price for the Stock as reported on the NASDAQ National Market System (or on any national securities exchange on which the Stock is then listed) for that date or, if no closing price is reported for that date, the closing price on the next preceding date for which a closing price was reported.

(l) “Incentive Stock Option” means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

(m) “Non-Employee Director” means a member of the Board who qualifies as a “Non-Employee Director” as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

(n) “Non-Qualified Stock Option” means an Option that is not intended to be an Incentive Stock Option.

(o) “Operating Subsidiary” means Semiconductor Components Industries, LLC.

(p) “Option” means a right granted to a Participant under Article 7 or Article 12 of the Plan to purchase Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

(q) “Participant” means a person who, as a member of the Board, employee, officer, or executive of, or consultant or advisor providing services to, the Company or any Subsidiary, has been granted an Award under the Plan.

(r) “Performance-Based Awards” means the Performance Share Awards and Restricted Stock Awards granted to selected Covered Employees pursuant to Articles 9 and 10, but which are subject to the terms and conditions set forth in Article 11. All Performance-Based Awards are intended to qualify as “performance-based compensation” under Section 162(m) of the Code.

(s) “Performance Criteria” means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that will be used to establish Performance Goals are limited to the following: pre- or after-tax net earnings, sales growth, operating earnings, operating cash flow, return on net assets, return on stockholders’ equity, return on assets, return on capital, Stock price growth, stockholder returns, gross or net profit margin, earnings per share, price per share of Stock, and market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The Committee shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

(t) “Performance Goals” means, for a Performance Period, the goals established in writing by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The Committee, in its discretion, may, within the time prescribed by Section 162(m) of the Code, adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants (i) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

(u) “Performance Period” means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to, and the payment of, a Performance-Based Award.

(v) “Performance Share” means a right granted to a Participant under Article 9, to receive cash, Stock, or other Awards, the payment of which is contingent upon achieving certain performance goals established by the Committee.

(w) “Plan” means the SCG Holding Corporation 2000 Stock Incentive Plan, as amended.

(x) “Restricted Stock Award” means Stock granted to a Participant under Article 10 that is subject to certain restrictions and to risk of forfeiture.

(y) “Stock” means the common stock of the Company and such other securities of the Company that may be substituted for Stock pursuant to Article 14.

(z) “Stock Appreciation Right” or “SAR” means a right granted to a Participant under Article 8 to receive a payment equal to the difference between the Fair Market Value of a share of Stock as of the date of exercise of the SAR over the grant price of the SAR, all as determined pursuant to Article 8.

(aa) “Subsidiary” means any corporation or other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

(bb) “Take Ownership Grant” means the Option granted to each eligible Participant pursuant to Article 12.

**ARTICLE 4**
**ADMINISTRATION**

4.1 **COMMITTEE**. The Plan shall be administered by the Board or a Committee appointed by, and which serves at the discretion of, the Board. If the Board appoints a Committee, the Committee shall consist of at least two individuals, each of whom qualifies as (i) a Non-Employee Director, and (ii) an “outside director” under Code Section 162(m) and the regulations issued thereunder. Reference to the Committee shall refer to the Board if the Board does not appoint a Committee.

4.2 **ACTION BY THE COMMITTEE**. A majority of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company’s independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

4.3 **AUTHORITY OF COMMITTEE**. Subject to any specific designation in the Plan, the Committee has the exclusive power, authority and discretion to:

(a) Designate Participants to receive Awards;

(b) Determine the type or types of Awards to be granted to each Participant;

(c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;

(d) Determine the terms and conditions of any Award granted under the Plan including but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, based in each case on such considerations as the Committee in its sole discretion determines; provided, however, that the Committee shall not have the authority to accelerate the vesting or waive the forfeiture of any Performance-Based Awards;

(e) Amend, modify, or terminate any outstanding Award, with the Participant's consent unless the Committee has the authority to amend, modify, or terminate an Award without the Participant's consent under any other provision of the Plan.

(f) Determine whether, to what extent, and under what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;

(g) Prescribe the form of each Award Agreement, which need not be identical for each Participant;

(h) Decide all other matters that must be determined in connection with an Award;

(i) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan; and

(j) Interpret the terms of, and any matter arising under, the Plan or any Award Agreement;

(k) Make all other decisions and determinations that may be required under the Plan or as the Committee deems necessary or advisable to administer the Plan.

4.4 **DECISIONS BINDING**. The Committee's interpretation of the Plan, any Awards granted under the Plan, any Award Agreement and all decisions and determinations by the Committee with respect to the Plan are final, binding, and conclusive on all parties.

## ARTICLE 5
## SHARES SUBJECT TO THE PLAN

5.1 **NUMBER OF SHARES**. Subject to adjustment as provided in section 14.1, the aggregate number of shares of Stock reserved and available for grant shall be 26,170,472, plus an additional number of shares of Stock equal to: (i) 2 % of the total number of outstanding shares of common stock effective as of January 1, 2004; (ii) 1.8 % of the total number of outstanding shares of common stock effective as of January 1, 2005; and (iii) 1.6 % of the total number of

outstanding shares as of January 1, 2006. In determining these increases of shares reserved for issuance under the 2000 SIP, relevant calculations shall be made on a non-diluted basis, i.e., excluding all shares previously reserved for issuance under the 2000 SIP and any other equity incentive plan of the Corporation. Notwithstanding the foregoing, the total number of shares available for grant under the 2000 SIP as Incentive Stock Options shall be 3,000,000.

5.2 **LAPSED AWARDS**. To the extent that an Award terminates, expires, or lapses for any reason, any shares of Stock subject to the Award will again be available for the grant of an Award under the Plan.

5.3 **STOCK DISTRIBUTED**. Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

5.4 **LIMITATION ON NUMBER OF SHARES SUBJECT TO AWARDS**. Notwithstanding any provision in the Plan to the contrary, and subject to the adjustment in Section 14.1, the maximum number of shares of Stock with respect to one or more Awards that may be granted to any one Participant during the Company's fiscal year shall be 2,500,000.

## ARTICLE 6
## ELIGIBILITY AND PARTICIPATION

6.1 **ELIGIBILITY**.

(a) GENERAL. Persons eligible to participate in this Plan include all members of the Board, employees, officers, and executives of, and consultants and advisors to, the Company or a Subsidiary, as determined by the Committee.

(b) FOREIGN PARTICIPANTS. Subject to the provisions of Article 16 of the Plan, in order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; provided, however, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 5.1 of the Plan.

6.2 **ACTUAL PARTICIPATION**. Subject to the provisions of the Plan, the Committee may, from time to time, select from among all eligible individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No individual shall have any right to be granted an Award under this Plan.

## ARTICLE 7
## STOCK OPTIONS

7.1 **GENERAL**. The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) EXERCISE PRICE. The exercise price per share of Stock under an Option shall be determined by the Committee and set forth in the Award Agreement. It is the intention under the Plan that the exercise price for any Option shall not be less than the Fair Market Value as of the date of grant; provided, however that the Committee may, in its discretion, grant Options (other than Options that are intended to be Incentive Stock Options or Options that are intended to qualify as performance-based compensation under Code Section 162(m)) with an exercise price of less than Fair Market Value on the date of grant.

(b) TIME AND CONDITIONS OF EXERCISE. The Committee shall determine the time or times at which an Option may be exercised in whole or in part. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised. Unless otherwise provided in an Award Agreement, an Option will lapse immediately if a Participant's employment or services are terminated for Cause.

(c) PAYMENT. The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation, cash, promissory note, shares of Stock (through actual tender or by attestation), or other property (including broker-assisted "cashless exercise" arrangements), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants.

(d) EVIDENCE OF GRANT. All Options shall be evidenced by a written Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

7.2 **INCENTIVE STOCK OPTIONS**. Incentive Stock Options shall be granted only to employees and the terms of any Incentive Stock Options granted under the Plan must comply with the following additional rules:

(a) EXERCISE PRICE. The exercise price per share of Stock shall be set by the Committee, provided that the exercise price for any Incentive Stock Option may not be less than the Fair Market Value as of the date of the grant.

(b) EXERCISE. In no event, may any Incentive Stock Option be exercisable for more than ten years from the date of its grant.

(c) LAPSE OF OPTION. An Incentive Stock Option shall lapse under the following circumstances.

(1) The Incentive Stock Option shall lapse ten years from the date it is granted, unless an earlier time is set in the Award Agreement.

(2) The Incentive Stock Option shall lapse upon termination of employment for Cause or for any other reason, other than the Participant's death or Disability, unless otherwise provided in the Award Agreement.

(3) If the Participant terminates employment on account of Disability or death before the Option lapses pursuant to paragraph (1) or (2) above, the Incentive

Stock Option shall lapse, unless it is previously exercised, on the earlier of (i) the date on which the Option would have lapsed had the Participant not become Disabled or lived and had his employment status (i.e., whether the Participant was employed by the Company on the date of his Disability or death or had previously terminated employment) remained unchanged; or (ii) 12 months after the date of the Participant's termination of employment on account of Disability or death. Upon the Participant's Disability or death, any Incentive Stock Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so under the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Stock Option or dies intestate, by the person or persons entitled to receive the Incentive Stock Option under the applicable laws of descent and distribution.

(d) INDIVIDUAL DOLLAR LIMITATION. The aggregate Fair Market Value (determined as of the time an Award is made) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed $100,000.00 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(e) TEN PERCENT OWNERS. An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(f) EXPIRATION OF INCENTIVE STOCK OPTIONS. No Award of an Incentive Stock Option may be made pursuant to this Plan after the tenth anniversary of the Effective Date.

(g) RIGHT TO EXERCISE. During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

## ARTICLE 8
## STOCK APPRECIATION RIGHTS

8.1 **GRANT OF SARS**. The Committee is authorized to grant SARs to Participants on the following terms and conditions:

(a) RIGHT TO PAYMENT. Upon the exercise of a Stock Appreciation Right, the Participant to whom it is granted has the right to receive the excess, if any, of:

(1) The Fair Market Value of a share of Stock on the date of exercise; over

(2) The grant price of the Stock Appreciation Right as determined by the Committee, which shall not be less than the Fair Market Value of a share of Stock on the date of grant in the case of any SAR related to any Incentive Stock Option.

(b) OTHER TERMS. All awards of Stock Appreciation Rights shall be evidenced by an Award Agreement. The terms, methods of exercise, methods of settlement, form of consideration payable in settlement, and any other terms and conditions of any Stock Appreciation Right shall be determined by the Committee at the time of the grant of the Award and shall be reflected in the Award Agreement.

## ARTICLE 9
## PERFORMANCE SHARES

9.1 **GRANT OF PERFORMANCE SHARES**. The Committee is authorized to grant Performance Shares to Participants on such terms and conditions as may be selected by the Committee. The Committee shall have the complete discretion to determine the number of Performance Shares granted to each Participant. All Awards of Performance Shares shall be evidenced by an Award Agreement.

9.2 **RIGHT TO PAYMENT**. A grant of Performance Shares gives the Participant rights, valued as determined by the Committee, and payable to, or exercisable by, the Participant to whom the Performance Shares are granted, in whole or in part, as the Committee shall establish at grant or thereafter. Subject to the terms of the Plan, the Committee shall set performance goals and other terms or conditions to payment of the Performance Shares in its discretion which, depending on the extent to which they are met, will determine the number and value of Performance Shares that will be paid to the Participant.

9.3 **OTHER TERMS**. Performance Shares may be payable in cash, Stock, or other property, and have such other terms and conditions as determined by the Committee and reflected in the Award Agreement.

## ARTICLE 10
## RESTRICTED STOCK AWARDS

10.1 **GRANT OF RESTRICTED STOCK**. The Committee is authorized to make Awards of Restricted Stock to Participants in such amounts and subject to such terms and conditions as determined by the Committee. All Awards of Restricted Stock shall be evidenced by a Restricted Stock Award Agreement.

10.2 **ISSUANCE AND RESTRICTIONS**. Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

10.3 **FORFEITURE**. Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment during the applicable

restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited, provided, however, that the Committee may provide in any Restricted Stock Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock.

10.4 **CERTIFICATES FOR RESTRICTED STOCK**. Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

## ARTICLE 11
## PERFORMANCE-BASED AWARDS

11.1 **PURPOSE**. The purpose of this Article 11 is to provide the Committee the ability to qualify the Performance Share Awards under Article 9 and the Restricted Stock Awards under Article 10 as "performance-based compensation" under Section 162(m) of the Code. If the Committee, in its discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Article 11 shall control over any contrary provision contained in Articles 9 or 10.

11.2 **APPLICABILITY**. This Article 11 shall apply only to those Covered Employees selected by the Committee to receive Performance-Based Awards. The Committee may, in its discretion, grant Restricted Stock Awards or Performance Share Awards to Covered Employees that do not satisfy the requirements of this Article 11. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as a Participant in such period or in any other period.

11.3 **DISCRETION OF COMMITTEE WITH RESPECT TO PERFORMANCE AWARDS**. With regard to a particular Performance Period, the Committee shall have full discretion to select the length of such Performance Period, the type of Performance-Based Awards to be issued, the kind and/or level of the Performance Goal, and whether the Performance Goal is to apply to the Company, a Subsidiary or any division or business unit thereof.

11.4 **PAYMENT OF PERFORMANCE AWARDS**. Unless otherwise provided in the relevant Award Agreement, a Participant must be employed by the Company or a Subsidiary on the last day of the Performance Period to be eligible for a Performance Award for such Performance Period. Furthermore, a Participant shall be eligible to receive payment under a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved. In determining the actual size of an individual Performance-Based Award,

the Committee may reduce or eliminate the amount of the Performance-Based Award earned for the Performance Period, if in its sole and absolute discretion, such reduction or elimination is appropriate.

11.5 **MAXIMUM AWARD PAYABLE**. The maximum Performance-Based Award payable to any one Participant under the Plan for a Performance Period is 2,500,000 shares of Stock, or in the event the Performance-Based Award is paid in cash, such maximum Performance-Based Award shall be determined by multiplying 2,500,000 by the Fair Market Value of one share of Stock as of the date of grant of the Performance-Based Award.

## ARTICLE 12
## TAKE OWNERSHIP GRANTS

12.1 **TAKE OWNERSHIP GRANTS**. The Take Ownership Grants shall be awarded to Participants selected by the Committee and shall be subject to the following terms and conditions:

(a) EFFECTIVE DATE OF GRANTS. The effective date of the Take Ownership Grants shall be on the day on which the Company's initial public offering of Stock is consummated; provided, however, that Take Ownership Grants shall not be made to those persons who are not United States residents if the jurisdiction in which any such person resides prohibits such Grants or makes it impractical for the Company to make such Grants.

(b) EXERCISE PRICE FOR GRANTS. Notwithstanding any other provision hereof, the exercise price per share of Stock under the Take Ownership Grants shall be the price at which the Company's Stock is offered under its initial public offering of Stock ("IPO Price"), provided, however, that, with respect to Participants who do not reside in the United States, if the day on which the Company receives approval by the applicable foreign jurisdiction to offer Stock to Participants residing in that jurisdiction is later than the day on which the Company's initial public offering becomes effective, the exercise price per share of Stock under the Take Ownership Grants shall be the Fair Market Value on the day on which the Company receives approval by the applicable foreign jurisdiction to offer Stock to such Participants.

(c) AMOUNT OF THE TAKE OWNERSHIP GRANTS. Each Participant selected to receive a Take Ownership Grant shall be entitled to receive an Option to purchase 50 shares of Stock. Such Option shall be designated as a Non-Qualified Stock Option.

(d) TIME AND CONDITIONS OF EXERCISE. The Take Ownership Grants shall become fully exercisable on the second anniversary of the date of grant.

(e) PAYMENT. The Committee shall determine the methods by which the exercise price of the Take Ownership Grants may be paid, the form of payment, including, without limitation, cash, promissory note, shares of Stock (through actual tender or by attestation), or other property (including broker-assisted "cashless exercise" arrangements), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants.

(f) EVIDENCE OF GRANT. All Take Ownership Grants shall be evidenced by a written Award Agreement between the Company and the Participant. The Award Agreement shall provide that upon a Participant's termination of employment or service with the Company or a Subsidiary for any reason, the Participant may, at any time within 90 days after the effective date of the Participant's termination, exercise the Take Ownership Grant to the extent that the Participant was entitled to exercise the Take Ownership Grant at the date of termination, provided that in no event shall the Take Ownership Grant be exercisable after its expiration date, as provided in the Award Agreement. The Award Agreement shall also include such other provisions as determined by the Committee.

## ARTICLE 13
## PROVISIONS APPLICABLE TO AWARDS

13.1 **STAND-ALONE AND TANDEM AWARDS**. Awards granted under the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted under the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

13.2 **EXCHANGE PROVISIONS**. The Committee may at any time offer to exchange or buy out any previously granted Award for a payment in cash, Stock, or another Award, based on the terms and conditions the Committee determines and communicates to the Participant at the time the offer is made.

13.3 **TERM OF AWARD**. The term of each Award shall be for the period as determined by the Committee, provided that in no event shall the term of any Incentive Stock Option or a Stock Appreciation Right granted in tandem with the Incentive Stock Option exceed a period of ten years from the date of its grant.

13.4 **FORM OF PAYMENT FOR AWARDS**. Subject to the terms of the Plan and any applicable law or Award Agreement, payments or transfers to be made by the Company or a Subsidiary on the grant or exercise of an Award may be made in such forms as the Committee determines at or after the time of grant, including without limitation, cash, promissory note, Stock, other Awards, or other property, or any combination, and may be made in a single payment or transfer, in installments, or on a deferred basis, in each case determined in accordance with rules adopted by, and at the discretion of, the Committee.

13.5 **LIMITS ON TRANSFER**. No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Committee, no Award shall be assignable or transferable by a Participant other than by will or the laws of descent and distribution.

13.6 **BENEFICIARIES**. Notwithstanding Section 13.5, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the

Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights under the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married, a designation of a person other than the Participant's spouse as his beneficiary with respect to more than 50 % of the Participant's interest in the Award shall not be effective without the written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto under the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

13.7 **STOCK CERTIFICATES**. Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Awards, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed or traded. All Stock certificates delivered under the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with Federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Committee may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements.

13.8 **ACCELERATION UPON A CHANGE OF CONTROL**. At the time of the grant of an Option, Stock Appreciation Right or other Award or any time thereafter, the Board shall have the authority and discretion, but shall not have any obligation, to provide for the acceleration of the vesting and exercisability of any outstanding Option, Stock Appreciation Right or other Award upon a Change in Control.

## ARTICLE 14
## CHANGES IN CAPITAL STRUCTURE

14.1 **GENERAL**.

(a) SHARES AVAILABLE FOR GRANT. In the event of any change in the number of shares of Stock outstanding by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the maximum aggregate number of shares of Stock with respect to which the Committee may grant Awards shall be appropriately adjusted by the Committee. In the event of any change in the number of shares of Stock outstanding by reason of any other event or transaction, the Committee may, but need not, make such adjustments in the number and class of shares of Stock with respect to which Awards may be granted as the Committee may deem appropriate.

(b) OUTSTANDING AWARDS – INCREASE OR DECREASE IN ISSUED SHARES WITHOUT CONSIDERATION. Subject to any required action by the shareholders of the Company, in the event of any increase or decrease in the number of issued shares of Stock resulting from a subdivision or consolidation of shares of Stock or the payment of a stock dividend (but only on the shares of Stock), or any other increase or decrease in the number of such shares effected without receipt or payment of consideration by the Company, the Committee shall proportionally adjust the number of shares of Stock subject to each outstanding Award and the exercise price per share of Stock of each such Award.

(c) OUTSTANDING AWARDS – CERTAIN MERGERS. Subject to any required action by the shareholders of the Company, in the event that the Company shall be the surviving corporation in any merger or consolidation (except a merger or consolidation as a result of which the holders of shares of Stock receive securities of another corporation), each Award outstanding on the date of such merger or consolidation shall pertain to and apply to the securities which a holder of the number of shares of Stock subject to such Award would have received in such merger or consolidation.

(d) OUTSTANDING AWARDS – CERTAIN OTHER TRANSACTIONS. In the event of (i) a dissolution or liquidation of the Company, (ii) a sale of all or substantially all of the Company's assets, (iii) a merger or consolidation involving the Company in which the Company is not the surviving corporation or (iv) a merger or consolidation involving the Company in which the Company is the surviving corporation but the holders of shares of Stock receive securities of another corporation and/or other property, including cash, the Committee shall, in its absolute discretion, have the power to:

(1) cancel, effective immediately prior to the occurrence of such event, each Award outstanding immediately prior to such event (whether or not then exercisable), and, in full consideration of such cancellation, pay to the Participant to whom such Award was granted an amount in cash, for each share of Stock subject to such Award, respectively, equal to the excess of (A) the value, as determined by the Committee in its absolute discretion, of the property (including cash) received by the holder of a share of Stock as a result of such event over (B) the exercise of such Award; or

(2) provide for the exchange of each Award outstanding immediately prior to such event (whether or not then exercisable) for an option, a stock appreciation right, restricted stock award, performance share award or performance-based award with respect to, as appropriate, some or all of the property for which such Award is exchanged and, incident thereto, make an equitable adjustment as determined by the Committee in its absolute discretion in the exercise price or value of the option, stock appreciate right, restricted stock award, performance share award or performance-based award or the number of shares or amount of property subject to the option, stock appreciation right, restricted stock award, performance share award or performance-based award or, if appropriate, provide for a cash payment to the Participant to whom such Award was granted in partial consideration for the exchange of the Award.

(e) OUTSTANDING AWARDS – OTHER CHANGES. In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in Article 14, the Committee may, in its absolute discretion, make such adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in the per share exercise price of each Award as the Committee may consider appropriate to prevent dilution or enlargement of rights.

(f) NO OTHER RIGHTS. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the exercise price of any Award.

## ARTICLE 15
## AMENDMENT, MODIFICATION, AND TERMINATION

15.1 **AMENDMENT, MODIFICATION, AND TERMINATION**. With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan; provided, however, that to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

15.2 **AWARDS PREVIOUSLY GRANTED**. Except as otherwise provided in the Plan, including without limitation, the provisions of Article 14, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant.

## ARTICLE 16
## PROVISIONS RELATING TO FRENCH EMPLOYEES

Notwithstanding any other provisions of the Plan to the contrary, the following provisions shall apply to Awards granted to any employee who is a French citizen or who works primarily in France as of the grant date (referred to herein as “French Employee”).

16.1 **CONSULTANTS**. Notwithstanding anything to the contrary herein, no French Employee who would otherwise be considered a consultant under French law may be granted an Award under the Plan.

16.2 **TERMINATION FOR CAUSE**. The last sentence of Section 3.1(d) (definition of Cause) shall not apply to French Employees.

16.3 **TEN PERCENT OWNERS**. Notwithstanding Section 6.1(a) above, no Award shall be granted to any French Employee who holds more than ten percent of the Stock on the grant date.

16.4 **EXERCISE PRICE**. Notwithstanding Section 7.1(a) above, all Awards granted to French Employees shall be granted at an exercise price per share equal to Fair Market Value per share as of the grant date.

16.5 **TIME LIMITATIONS**. No Options shall be granted to any French Employee five years after the later of (a) the date the Company's stockholders initially approved the Plan, or (b) the date the Plan has been subsequently re-authorized, in its original form or as amended from time to time by the Board, by the Company's stockholders.

16.6 **VESTING OF OPTIONS**. Notwithstanding Section 7.1(b) above, no portion of any Award granted to a French Employee shall become exercisable before the five-year anniversary of the grant date.

16.7 **EFFECT OF PARTICIPANT'S DEATH**. Notwithstanding Section 7.1(b) or any other provision hereof, upon a French Employee's death, the vested portion of such Participant's Award shall remain exercisable for a period of six months after the date of his death and shall be exercisable by his heirs.

16.8 **EXCHANGE OF OPTIONS**. Notwithstanding Section 13.2 above, the Company shall not terminate any portion of an Award granted to any French Employee.

16.9 **ADJUSTMENT OF OPTIONS**. Notwithstanding Section 14.1 herein, any adjustment made to any Award granted to a French Employee shall comply with applicable French law.

## ARTICLE 17
## GENERAL PROVISIONS

17.1 **NO RIGHTS TO AWARDS**. No Participant, employee, or other person shall have any claim to be granted any Award under the Plan, and neither the Company nor the Committee is obligated to treat Participants, employees, and other persons uniformly.

17.2 **NO STOCKHOLDERS RIGHTS**. No Award gives the Participant any of the rights of a stockholder of the Company unless and until shares of Stock are in fact issued to such person in connection with such Award.

17.3 **WITHHOLDING**. The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising as a result of this Plan. With the Committee's consent, a Participant may elect to have the Company withhold from those Stock that would otherwise be received upon the exercise of any Option, a number of shares having a Fair Market Value equal to the minimum statutory amount necessary to satisfy the Company's applicable federal, state, local and foreign income and employment tax withholding obligations.

17.4 **NO RIGHT TO EMPLOYMENT OR SERVICES**. Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any

Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ of the Company or any Subsidiary.

17.5 **UNFUNDED STATUS OF AWARDS**. The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

17.6 **INDEMNIFICATION**. To the extent allowable under applicable law, each member of the Committee or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act under the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her provided he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

17.7 **RELATIONSHIP TO OTHER BENEFITS**. No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary.

17.8 **EXPENSES**. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

17.9 **TITLES AND HEADINGS**. The titles and headings of the Sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

17.10 **FRACTIONAL SHARES**. No fractional shares of stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

17.11 **SECURITIES LAW COMPLIANCE**. With respect to any person who is, on the relevant date, obligated to file reports under Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be void to the extent permitted by law and voidable as deemed advisable by the Committee.

17.12 **GOVERNMENT AND OTHER REGULATIONS**. The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable

laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register under the Securities Act of 1933, as amended, any of the shares of Stock paid under the Plan. If the shares paid under the Plan may in certain circumstances be exempt from registration under the Securities Act of 1933, as amended, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

17.13 **GOVERNING LAW**. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware.

**Exhibit 18**

August 13, 2003

To the Board of Directors of
ON Semiconductor Corporation

We are providing this letter to you for inclusion as an exhibit to ON Semiconductor Corporation's (the "Company") Quarterly Report on Form 10-Q for the period ended July 4, 2003 (the "Form 10-Q") pursuant to Item 601 of Regulation S-K.

As described in Note 3 to the consolidated financial information included in the Form 10-Q, the Company changed its method of accounting for unrecognized actuarial gains or losses relating to its defined benefit pension obligations (the "actuarial gains or losses"). The Company previously amortized net unrecognized actuarial gains or losses to expense over the average remaining service lives of active plan participants, to the extent such net actuarial gains or losses exceeded the greater of 10% of the related projected benefit obligation or plan assets. Effective January 1, 2003, the Company will no longer defer actuarial gains or losses but will recognize such actuarial gains or losses during the fourth quarter of each year which is the period the Company's annual pension plan actuarial valuations are prepared.

It should be understood that the preferability of one acceptable method of accounting over another for actuarial gains or losses has not been addressed in any authoritative accounting literature, and in expressing our concurrence below, we have relied on management's determination that this change in accounting principle is preferable. Based on our reading of management's stated reasons and justification for this change in accounting principle, and our discussions with management as to their judgment about the relevant business planning factors relating to the change, we concur with management that such change represents, in the Company's circumstances, the adoption of a preferable accounting principle in conformity with Accounting Principles Board Opinion No. 20.

We have not audited any financial statements of the Company as of any date or for any period subsequent to December 31, 2002. Accordingly, our comments are subject to change upon completion of an audit of the financial statements covering the period of the accounting change.

Very truly yours,

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

**Exhibit 31.1**

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Keith D. Jackson, certify that:

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

Date: August 13, 2003

/s/ KEITH D. JACKSON

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

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Donald Colvin, certify that:

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

Date: August 13, 2003

/s/ DONALD COLVIN

**Donald Colvin**
**Chief Financial Officer**

Exhibit 32

**Certification**

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

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

The Quarterly Report on Form 10-Q for the quarter ended July 4, 2003 ("Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2003

/s/ KEITH D. JACKSON

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

Dated: August 13, 2003

/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.)